



CENTRAL UTAH WATER CONSERVANCY DISTRICT

Basic Financial Statements

June 30, 2006

(With Independent Auditors' Report Thereon)

CENTRAL UTAH WATER CONSERVANCY DISTRICT

Table of Contents

	Page
Independent Auditors' Report	1
Management's Discussion and Analysis	3
Basic Financial Statements:	
Statement of Net Assets	10
Statement of Activities	12
Governmental Funds Balance Sheet	13
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets	15
Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances	16
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	17
Statement of Fiduciary Net Assets	18
Statement of Changes in Fiduciary Net Assets	19
Notes to Basic Financial Statements	20
Required Supplementary Information:	
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund	62
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – CUPCA Fund	63
Note to Required Supplementary Information	64



KPMG LLP
Suite 1500
15 West South Temple
Salt Lake City, UT 84101

Independent Auditors' Report

The Board of Trustees
Central Utah Water Conservancy District:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Central Utah Water Conservancy District (the District) as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District as of June 30, 2006, and the respective changes in financial positions thereof for the year then ended, in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2006 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and the Required Supplementary Information, on pages 3 through 9 and 62 through 64 are not a required part of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and is not a required part of the basic financial statements. The schedule of expenditures of federal awards has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

KPMG LLP

December 15, 2006

CENTRAL UTAH WATER CONSERVANCY DISTRICT

Management's Discussion and Analysis

June 30, 2006

This section of Central Utah Water Conservancy District's (District) report presents management's discussion and analysis of the District's financial performance during the year ended June 30, 2006. Please read it in conjunction with the District's basic financial statements, which follow this section.

Financial Highlights

- The District's net assets were \$267 million at June 30, 2006.
- Current year property tax revenues increased 24% as a result of an increase in the property tax rate and increases in taxable value of property. Motor vehicle fees, which are based on vehicle age, increased 23%.
- On April 6, 2006, the District issued General Obligation (2006 Limited Tax) Refunding Bonds. The bonds were issued in the original amount of \$22,810,000, plus \$430,815 reoffering premium, with interest from 4% to 5%. Interest is payable semiannually beginning October 1, 2006 and thereafter on each April 1 and October 1 through 2027. Principal payments are due annually beginning April 1, 2007 and thereafter on each April 1 through 2027. Proceeds from the bond issuance were used to pay amounts outstanding on the 1998D Series General Obligation Bonds. The District recognized \$679,613 of deferred charges for the defeasance of the 1998D Series General Obligation Bonds. This bonding transaction represents an approximate gross savings of \$2.3 million and a total present value savings of approximately \$1.4 million. The prepayment to the U.S. Department of the Interior was made in February 2005.
- On January 26, 2006, the District issued Series 2006 Jordanelle Hydroelectric Revenue Bonds. The bonds were issued in the original amount of \$19,200,000, with variable interest, which adjusts with the Bond Market Association Municipal Swap Index (BMA) with the cap provider to give the District a fixed rate basis if and when the variable interest rate borne by the bonds exceeds 6.0% pursuant to the cap agreement. Interest is payable semiannually beginning April 1, 2006 and thereafter on each April 1 and October 1 through 2035. Principal payments are due annually beginning October 1, 2005 and thereafter on each October 1 through 2037. Proceeds from the bond issuance are for the construction of the hydroelectric plant inside the Jordanelle Reservoir Dam.
- The District continued various capital projects during the year ended June 30, 2006. The following capital additions were recorded during the year: Ashley Treatment Plant Clearwell, \$0.12 million; Municipal Water Capital Facilities, \$3.4 million; Utah Valley Water Treatment Plant, \$9.77 million; Jordanelle Hydro Power Plant, \$1.07 million; Duchesne Valley Water Treatment Plant, \$0.24 million; District Office facilities, \$0.89 million; and vehicles and equipment, \$0.21 million.

Overview of the Basic Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components:

(1) government-wide financial statements, (2) fund financial statements, and (3) notes to the basic financial statements. This report also contains other required supplementary information in addition to the basic financial statements themselves.

CENTRAL UTAH WATER CONSERVANCY DISTRICT

Management's Discussion and Analysis

June 30, 2006

Government-Wide Financial Statements

The *government-wide financial statements* are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business. These statements include all governmental activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues.

The *statement of net assets* presents information on all of the assets and liabilities of the District, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The *statement of activities* presents information showing how the net assets of the District changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Fund Financial Statements

A fund is a group of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into two categories: governmental funds and fiduciary funds.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the government's near-term financing requirements. Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The District maintains four individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Central Utah Project Completion Act Fund, the Debt Service Fund, and the Capital Projects Fund; all of which are considered to be major funds.

- **General Fund:** The General Fund is the operating fund of the District. Revenues from tax collections, water sales, and other sources are received into this fund. Expenditures include administrative costs and operation and maintenance of District and project facilities. Fund transfers are made from the General Fund to the other funds of the District.

CENTRAL UTAH WATER CONSERVANCY DISTRICT

Management's Discussion and Analysis

June 30, 2006

- **Central Utah Project Completion Act Fund:** The Central Utah Project Completion Act Fund, a special revenue fund, contains federal funds which are in most cases matched with District funds and are used for water development projects owned and approved by the U.S. Department of the Interior and authorized by the Central Utah Project Completion Act (CUPCA) in Public Law 102-575, October 30, 1992.
- **Debt Service Fund:** The Debt Service Fund is used to collect and pay debt service payments on the District's outstanding debt. A trustee administers debt service payments and directs the investment of reserve funds with District approval. Payments are made to bondholders and to the U.S. Bureau of Reclamation, a programmatic bureau of the U.S. Department of the Interior.
- **Capital Projects Fund:** The Capital Projects Fund administers payments for various District capital projects. This includes modifications to the District's water treatment plants and for water conveyance facilities. It is also used to modify certain federal facilities within the District's operating agreements. Funds are transferred into this fund from the General Fund.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the governmental entity. Fiduciary funds are not reflected in the government-wide financial statements because the District cannot use these funds to fund its programs.

The District maintains one fiduciary fund, which is a private purpose trust fund, as follows:

- **June Sucker Recovery Agreement Fund:** The District, along with one state, four federal, and three local agencies entered into an agreement with the U.S. Fish and Wildlife Service to rehabilitate the June Sucker, a Utah native fish on the endangered species listing. The other state, federal, and local agencies participate in the program and contribute financially. The District administers the funds on behalf of those who are a party to the agreement.

Notes to the Basic Financial Statements

The notes to the basic financial statements provide additional information that is essential for a more complete understanding of the data provided in the government-wide and fund financial statements.

Government-Wide Financial Analysis: As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$267.3 million at June 30, 2006.

CENTRAL UTAH WATER CONSERVANCY DISTRICT

Management's Discussion and Analysis

June 30, 2006

The District's assets, liabilities and net assets are outlined below (in millions):

	Governmental activities	
	2006	2005
Current and other assets	\$ 124.9	101.2
Capital assets	607.1	595.3
Total assets	732.0	696.5
Current and other liabilities	23.4	23.7
Long-term liabilities outstanding	441.3	427.5
Total liabilities	464.7	451.2
Net assets:		
Invested in capital assets, net of related debt	160.4	168.0
Restricted	81.1	61.5
Unrestricted	25.8	15.8
Total net assets	\$ 267.3	245.3

The largest portion of the District's net assets (60% compared to 68% in fiscal year 2005) reflects its investment in capital assets (e.g., land, water stock, buildings and improvements, and furniture and equipment, net of accumulated depreciation), less any related debt (general obligation bonds payable and obligations under capital leases, less unspent bond proceeds) used to acquire those assets that are still outstanding. The District will service its debt through the future sale of water to customers, and other sources, such as property and motor vehicle taxes. Restricted net assets primarily consist of amounts to be used to complete the Central Utah Project, \$30.1 million and \$28.3 million at June 30, 2006 and 2005, respectively, and service future debt obligations, \$48.2 million and \$31.2 million at June 30, 2006 and 2005, respectively.

CENTRAL UTAH WATER CONSERVANCY DISTRICT

Management's Discussion and Analysis

June 30, 2006

Changes in net assets for the fiscal years ended June 30, 2006 and 2005 are outlined below:

	Governmental activities	
	2006	2005
Program revenues:		
Central Utah Project Completion Act	\$ 30,958,000	29,865,000
Water treatment plants and other projects	11,466,031	9,901,468
General government	3,539,158	638,718
General revenues:		
Property taxes	33,113,896	26,678,305
Earnings on investments	4,320,431	16,037,296
Net decrease in fair value of investments	(104,759)	(137,496)
Total revenues	83,292,757	82,983,291
Program expenses:		
Central Utah Project Completion Act	33,934,091	37,615,873
Water treatment plants and other projects	5,120,139	5,508,644
General government	5,289,631	5,171,761
Interest on long-term debt	16,973,765	9,612,752
Total expenses	61,317,626	57,909,030
Change in net assets	21,975,131	25,074,261
Net assets, beginning of year	245,330,987	220,256,726
Net assets, end of year	\$ 267,306,118	245,330,987

Total net assets have increased approximately \$22 million. The following factors have contributed to this increase; (1) General government revenues category has increased due to reimbursements by Orem City for shared costs of construction of the Utah Valley Water Treatment Plant finished water reservoir. Although the District will own this facility, it is being paid for, in part, by Orem City; (2) Property taxes increased substantially during the period. The District raised its tax rate to .0004 (the statutory maximum) in 2006; (3) Earnings on investments decreased during the year. The prepayment of various United States Government obligations during 2005 created a substantial revenue source. The \$4 million revenue for 2006 represents a more representative revenue stream for the District. This same bond issuance is responsible for a substantial increase in long term debt interest (an increase of approximately \$7 million) during 2006; and (4) With the substantial completion of the Big Sand Wash Reservoir in the Uinta Basin, funds for the Central Utah Project Completion Act have decreased by approximately \$4 million.

Financial Analysis of the District's Funds

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

CENTRAL UTAH WATER CONSERVANCY DISTRICT

Management's Discussion and Analysis

June 30, 2006

Governmental Funds: The focus of the District's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the District's financing requirements. At June 30, 2006, the District's governmental funds reported a combined fund balance of \$107.8 million. This amount is up from \$84.0 million in the prior year primarily due to ongoing work performed on the Central Utah Project.

Governmental funds report the differences between their assets and liabilities as fund balance, which is divided into reserved and unreserved portions. Reservations indicate the portion of the District's fund balances that is not available for appropriation. The unreserved fund balance is, in turn, subdivided between designated and undesignated portions. Designations reflect the District's self-imposed limitation on the use of otherwise available expendable financial resources in governmental funds. Undesignated balances in the General Fund are required by state law to be appropriated in the following year's budget. Fund balances of Debt Service, Capital Projects, and other governmental funds are restricted by state law to be spent for the purpose of the fund and are not available for spending at the District's discretion. The \$2.7 million fund balance of the General Fund is primarily reserved for the following purposes: emergency project operations and maintenance, power loss, and project replacements until current year's tax collections are received. The \$11.3 million of the \$20.8 million fund balance of the Capital Projects Fund is designated for future capital projects, with the remaining \$9.5 million designated for potential future obligations.

Budgetary Highlights

During the year, the board of trustees (the Board) revised the District's budget. Budget amendments were to reflect changes in programs and related funding. The difference between the original budget and the final amended budget was an increase of \$70.8 thousand or 4.9% in expenditures for capital outlays. The difference between actual revenue and the final amended budget was a increase of \$2.9 million or 6.9%, primarily related to the increases in property tax rate assessed by the District. The difference between actual expenditures and the final amended budget was a decrease of \$2.5 million or 22%. This decrease primarily related to a decrease in administrative and general expenses for public affairs.

Capital Assets and Debt Administration

Capital Assets – The Capital Projects Fund is used to account for the costs incurred in acquiring and improving sites, constructing and remodeling facilities, and procuring equipment necessary for operating and maintaining facilities within the District.

Capital assets at June 30, 2006 and 2005 are outlined below (in millions):

	Governmental activities	
	2006	2005
Water and aqueduct rights and privileges	\$ 536.5	536.5
Land and land rights	1.2	1.2
Buildings and equipment	69.4	57.6
Total capital assets, net of accumulated depreciation	\$ 607.1	595.3

Additional information on the District's capital assets can be found in note 4 to the basic financial statements.

CENTRAL UTAH WATER CONSERVANCY DISTRICT

Management's Discussion and Analysis

June 30, 2006

Debt Administration – The District maintains a schedule to retire all of its general obligation bonds by 2027 and its revenue bonds by 2037. The District's debt outstanding at June 30, 2006 consists of bonds and contract obligations between the District and the U.S. Bureau of Reclamation as outlined below (in millions):

	Governmental activities		Total change 2006-2005
	2006	2005	
General obligation and revenue bonds	\$ 438.7	424.4	14.3
Contracts and block notices	8.0	8.1	(0.1)

The District's most recent ratings are as follows: Moody's Investors Service Aaa; Fitch Ratings AAA.

Additional information on the District's long-term debt can be found in note 5 to the basic financial statements.

Requests for Information

This financial report is designed to provide a general overview of the Central Utah Water Conservancy District's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Finance Department, Central Utah Water Conservancy District, 355 West University Parkway, Orem, Utah 84058.

CENTRAL UTAH WATER CONSERVANCY DISTRICT

Statement of Net Assets

June 30, 2006

Assets	<u>Governmental activities</u>
Assets:	
Current assets:	
Cash and cash equivalents (notes 2 and 7)	\$ 21,572,087
Investments (note 2)	9,935,938
Property taxes receivable	1,874,210
Accounts receivable	1,269,818
Prepaid expenses	<u>185,259</u>
Total current assets	34,837,312
Noncurrent assets:	
Restricted assets:	
Cash and cash equivalents (notes 2 and 7)	83,776,827
Investments (note 2)	1,527,297
Bond issuance costs, net of accumulated amortization	4,756,920
Capital assets (notes 3 and 4):	
Nondepreciable capital assets:	
Water and aqueduct rights and privileges	536,484,987
Land	1,222,784
Depreciable capital assets, net of accumulated depreciation	<u>69,370,943</u>
Total assets	<u>\$ 731,977,070</u>

CENTRAL UTAH WATER CONSERVANCY DISTRICT

Statement of Net Assets

June 30, 2006

Liabilities and Net Assets	<u>Governmental activities</u>
Liabilities:	
Current liabilities:	
Accounts payable	\$ 6,547,923
Accrued liabilities	203,835
Accrued interest on long-term debt	4,509,545
Deferred water sales revenue	4,637,784
Current portion of long-term debt:	
Contract obligations to United States Bureau of Reclamation (note 5)	99,955
Bonds payable (note 5)	<u>7,360,000</u>
Total current liabilities	23,359,042
Long-term liabilities, net of current portion:	
Postretirement benefit liability (note 12)	1,670,100
Compensated absences	486,583
Long-term debt:	
Contract obligations to United States Bureau of Reclamation (note 5)	7,856,260
Bonds payable (note 5)	<u>431,298,967</u>
Total liabilities	<u>464,670,952</u>
Net assets:	
Investment in capital assets, net of related debt	160,463,532
Restricted for:	
Emergency project operations and maintenance	654,543
Future project replacements	654,543
Operation and maintenance	73,262
Payments on power loss	1,349,957
Future capital projects to complete – CUPCA (note 10)	30,135,257
Future capital projects to complete – other	23,178,470
Future debt service	25,021,255
Unrestricted	<u>25,775,299</u>
Total net assets	<u>\$ 267,306,118</u>

See accompanying notes to basic financial statements.

CENTRAL UTAH WATER CONSERVANCY DISTRICT

Statement of Activities

Year ended June 30, 2006

Functions	Expenses	Program revenues		Net (expense) revenue and changes in net assets
		Charges for services	Operating grants and contributions	Total governmental activities
General District activities:				
Central Utah Project:				
Central Utah Project Completion Act (note 10)	\$ 30,317,470	—	30,958,000	640,530
Other Central Utah Project nonreimbursable expenses	2,011,497	—	—	(2,011,497)
Capital outlay	265,080	—	—	(265,080)
District projects	1,340,044	—	—	(1,340,044)
Total Central Utah Project	33,934,091	—	30,958,000	(2,976,091)
Water treatment plants and other projects	5,120,139	11,466,031	—	6,345,892
General government	5,289,631	214,839	3,324,319	(1,750,473)
Interest on long-term debt	16,973,765	—	—	(16,973,765)
Total general District activities	\$ 61,317,626	11,680,870	34,282,319	(15,354,437)
General revenues:				
Property taxes				33,113,896
Earnings on investments				4,320,431
Net decrease in fair value of investments				(104,759)
Total general revenues				37,329,568
Change in net assets				21,975,131
Net assets, beginning of year				245,330,987
Net assets, end of year				\$ 267,306,118

See accompanying notes to basic financial statements.

CENTRAL UTAH WATER CONSERVANCY DISTRICT

Governmental Funds Balance Sheet

June 30, 2006

Assets	General Fund	CUPCA Fund	Debt Service Fund	Capital Projects Fund	Total
Assets:					
Cash and cash equivalents (notes 2 and 7)	\$ 8,826,674	—	—	12,745,413	21,572,087
Investments (note 2)	—	—	—	9,935,938	9,935,938
Property taxes receivable	1,874,210	—	—	—	1,874,210
Accounts receivable	1,269,818	—	—	—	1,269,818
Prepaid expenses	185,259	—	—	—	185,259
Restricted assets:					
Cash and cash equivalents (notes 2 and 7)	2,732,304	34,372,095	46,672,428	—	83,776,827
Investments (note 2)	—	—	1,527,297	—	1,527,297
Total assets	\$ 14,888,265	34,372,095	48,199,725	22,681,351	120,141,436

CENTRAL UTAH WATER CONSERVANCY DISTRICT

Governmental Funds Balance Sheet

June 30, 2006

Liabilities and Fund Balances	General Fund	CUPCA Fund	Debt Service Fund	Capital Projects Fund	Total
Liabilities:					
Accounts payable	\$ 501,332	4,236,838	—	1,809,753	6,547,923
Accrued liabilities	203,835	—	—	—	203,835
Deferred water sales revenue	4,637,784	—	—	—	4,637,784
Deferred property tax revenue	913,548	—	—	—	913,548
Total liabilities	6,256,499	4,236,838	—	1,809,753	12,303,090
Fund balances (note 7):					
Reserved for:					
Emergency project operations and maintenance	654,543	—	—	—	654,543
Future project replacements	654,543	—	—	—	654,543
Payments on power loss	1,349,957	—	—	—	1,349,957
Operations and maintenance	73,262	—	—	—	73,262
Unreserved:					
Designated:					
Contingency reserve	—	—	—	9,487,537	9,487,537
Liability insurance	1,900,912	—	—	—	1,900,912
Facility repairs	474,589	—	—	—	474,589
Future capital projects	317,529	—	23,178,470	11,384,061	34,880,060
Undesignated	3,206,431	30,135,257	25,021,255	—	58,362,943
Total fund balances	8,631,766	30,135,257	48,199,725	20,871,598	107,838,346
Total liabilities and fund balances	\$ 14,888,265	34,372,095	48,199,725	22,681,351	120,141,436

See accompanying notes to basic financial statements.

CENTRAL UTAH WATER CONSERVANCY DISTRICT

**Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Assets**

June 30, 2006

Amounts reported for governmental activities in the statement of net assets are different because:

Total fund balances – governmental funds	\$ 107,838,346
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. The cost of the assets is \$678,292,233 and the accumulated depreciation is \$71,213,519	607,078,714
Property tax revenue is recognized when earned (claim to resources established) rather than when “available.” Uncollected amounts from prior levy years have been recorded as deferred revenue in the funds, but would have been recorded as revenue in government-wide financial statements	913,548
Postretirement benefit obligation is recognized as a liability in the funds when due and mature, rather than when incurred	(1,670,100)
Obligations for compensated absences are recognized as a liability in the funds when due and mature, rather than as earned by employees	(486,583)
Bond issue costs are reported as expenditures in the governmental funds. The cost is \$5,151,330 and accumulated amortization is \$394,410	4,756,920
Long-term debt, including bonds payable and accrued interest, is not due and payable in the current period and, therefore, is not reported in the funds	<u>(451,124,727)</u>
Total net assets – governmental activities	<u>\$ 267,306,118</u>

See accompanying notes to basic financial statements.

CENTRAL UTAH WATER CONSERVANCY DISTRICT

Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances

Year ended June 30, 2006

	General Fund	CUPCA Fund	Debt Service Fund	Capital Projects Fund	Total
Revenues:					
Property taxes	\$ 33,481,970	—	—	—	33,481,970
Water sales	11,466,031	—	—	—	11,466,031
Interest	627,856	1,205,705	1,878,192	608,678	4,320,431
Bond proceeds	—	—	19,700,000	—	19,700,000
Net decrease in fair value of investments	—	—	(85,290)	(19,469)	(104,759)
Central Utah Project Completion Act (note 10)	—	30,958,000	—	—	30,958,000
Other	214,839	—	—	3,324,319	3,539,158
Total revenues	45,790,696	32,163,705	21,492,902	3,913,528	103,360,831
Expenditures:					
Current:					
Central Utah Project Completion Act (note 10)	—	30,317,470	—	—	30,317,470
Other Central Utah Project nonreimbursable expenses	2,011,498	—	—	—	2,011,498
Water treatment plants and other projects	1,556,345	—	—	—	1,556,345
Administrative and general	3,631,382	—	—	—	3,631,382
District projects	1,340,044	—	—	—	1,340,044
Other	—	—	2,146,362	—	2,146,362
Bond issuance expense	—	—	908,274	—	908,274
Debt service:					
Principal (note 5)	—	—	5,590,055	—	5,590,055
Interest (note 5)	—	—	16,469,456	—	16,469,456
Capital outlay	412,518	—	—	15,553,926	15,966,444
Total expenditures	8,951,787	30,317,470	25,114,147	15,553,926	79,937,330
Excess (deficiency) of revenues over expenditures	36,838,909	1,846,235	(3,621,245)	(11,640,398)	23,423,501
Other financing sources (uses):					
Operating transfers in (out)	(33,622,847)	—	20,235,636	13,387,211	—
Refunding bonds issued	—	—	23,240,816	—	23,240,816
Payment to the refund bond escrow agent	—	—	(22,824,613)	—	(22,824,613)
Net changes in fund balances	3,216,062	1,846,235	17,030,594	1,746,813	23,839,704
Fund balances, beginning of year	5,415,704	28,289,022	31,169,131	19,124,785	83,998,642
Fund balances, end of year	\$ 8,631,766	30,135,257	48,199,725	20,871,598	107,838,346

See accompanying notes to basic financial statements.

CENTRAL UTAH WATER CONSERVANCY DISTRICT

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities

Year ended June 30, 2006

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balances – total governmental funds	\$	23,839,704
--	----	------------

Governmental funds report capital outlays as expenditures.

However, in the government-wide financial statements, assets with an initial, individual cost of more than \$5,000 are capitalized and the cost is allocated over the estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period:

Capital outlays	\$ 15,701,365	
Depreciation expense	<u>(3,954,560)</u>	11,746,805

Expenses related to postretirement benefit costs reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds	(266,200)
---	-----------

Expenses related to compensated absences reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds	(57,091)
---	----------

The governmental funds report bond proceeds as an other financing source, while repayment of bond principal is reported as an expenditure. In the statement of activities, issuance of debt is recorded as long-term liabilities, while repayment of bond principal is a reduction of the liability. Also, governmental funds report the effect of issuance costs and premiums when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. Interest is recognized as an expenditure in the governmental funds when it is due. In the statement of activities, interest expense is recognized as it accrues, regardless of when it is due. The net effect of these differences in the treatment of general obligation bonds and related items are as follows:

General obligation bond proceeds	(19,700,000)	
Refunding bond proceeds	(23,240,815)	
Bond issuance costs	908,274	
Payments to refund bond escrow agent	22,824,613	
Principal payments	5,590,055	
Change in accrual for interest on long-term debt	786,138	
Amortization of bond issuance costs	(161,696)	
Amortization of bond premium	384,957	
Deferred refunding	(679,613)	<u>(13,288,087)</u>

Change in net assets of governmental activities	\$	<u>21,975,131</u>
---	----	-------------------

See accompanying notes to basic financial statements.

CENTRAL UTAH WATER CONSERVANCY DISTRICT

Statement of Fiduciary Net Assets

June 30, 2006

	<u>Private Purpose Trust Fund</u>
Assets:	
Cash and cash equivalents	\$ <u>2,153,629</u>
Total assets	<u>2,153,629</u>
Liabilities:	
Accounts payable	<u>454,247</u>
Total liabilities	<u>454,247</u>
Total net assets held	\$ <u><u>1,699,382</u></u>

See accompanying notes to basic financial statements.

CENTRAL UTAH WATER CONSERVANCY DISTRICT

Statement of Changes in Fiduciary Net Assets

Year ended June 30, 2006

	Private Purpose Trust Fund
Additions:	
June Sucker Recovery Program contributions	\$ 374,234
Interest on investments	<u>164,162</u>
Total additions	<u>538,396</u>
Deductions:	
June Sucker Recovery Program expense	516,219
Red Butte Dam expense	<u>4,173,800</u>
Total deductions	<u>4,690,019</u>
Change in fiduciary net assets	(4,151,623)
Net assets, beginning of year	<u>5,851,005</u>
Net assets, end of year	<u><u>\$ 1,699,382</u></u>

See accompanying notes to basic financial statements.

CENTRAL UTAH WATER CONSERVANCY DISTRICT

Note to Basic Financial Statements

June 30, 2006

(1) Summary of Significant Accounting Policies

The Central Utah Water Conservancy District (the District) prepares its basic financial statements in accordance with U.S. generally accepted accounting principles (GAAP) for governmental entities. GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. The accounting and reporting framework and the more significant accounting policies are described below in subsequent sections of this note.

(a) Reporting Entity

The District was created by the Fourth District Court under authority of the Water Conservancy Act (Utah Code 73-9) in 1964. The purpose of the District, as stated in the court decree, is to acquire the maximum supplies of water for the District and to achieve the optimum development, distribution, and utilization of water resources available for agriculture, domestic, power generating, manufacturing, recreational, and other beneficial uses. The ten counties in the District are: Salt Lake, Utah, Uintah, Duchesne, Sanpete, Wasatch, Piute, and portions of Juab, Garfield, and Summit counties.

The District's board of trustees (the Board), comprised of 18 individuals, is the governing authority for the District. The Board members are nominated by county commissioners, selected by the Governor, and confirmed by the State Senate. The District is an independent reporting entity and is not a component unit of any other government. The Board establishes District policies, approves the budget, is responsible for fiscal matters, is authorized to issue bonds, incur debt, and to levy ad valorem taxes.

All funds, including all financial activities over which the Board has financial accountability, are included in this report. The District's financial reporting entity is comprised of all funds of the District, which constitute the primary government.

In determining the financial reporting entity, the District complies with the provisions of Governmental Accounting Standards Board Statement No. 14, *The Financial Reporting Entity*, and includes all component units of which the District appoints a voting majority of the unit's board and the District is either able to impose its will on the unit or a financial benefit or burden relationship exists. The District has no component units.

(b) Basis of Presentation

Government-Wide Financial Statements

The statement of net assets and statement of activities display information about the District as a whole. They include all assets and liabilities of the District, except those related to fiduciary funds. These statements include all governmental activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues. Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989 have been applied in the government-wide financial statements unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails.

CENTRAL UTAH WATER CONSERVANCY DISTRICT

Note to Basic Financial Statements

June 30, 2006

Fund Financial Statements

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures/ expenses. The District's funds are organized into two categories: governmental and fiduciary. Major funds are presented separately in the fund financial statements, while nonmajor funds are presented in aggregation. A fund is considered major if it is the primary operating fund of the District or meets the following criteria:

- a. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund are at least 10% of the corresponding total for all funds of that category or type, and
- b. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund are at least 5% of the corresponding total for all governmental and enterprise funds combined.

Further, any other governmental fund may be reported as a major fund if the government's officials believe it is particularly important to the financial statement users. All of the District's governmental funds are considered major funds.

The governmental funds and fiduciary fund of the District are described below:

Governmental Funds

General Fund

The General Fund is the primary operating fund of the District. It is used to account for all activities except those legally or administratively required to be accounted for in other funds.

CUPCA Fund

The Central Utah Project Completion Act (CUPCA) Fund is used to account for resources restricted for the completion of the Central Utah Project, which includes various water features throughout central Utah.

Debt Service Fund

The Debt Service Fund accounts for the accumulation of financial resources for the payment of interest and principal on the general long-term debt of the District. Ad valorem taxes are used for the payment of principal and interest on the District's judgment.

Capital Projects Fund

The Capital Projects Fund is used to account for resources restricted for the acquisition or construction of specific capital projects or items.

CENTRAL UTAH WATER CONSERVANCY DISTRICT

Note to Basic Financial Statements

June 30, 2006

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the governmental entity. Fiduciary funds are not reflected in the government-wide financial statements, as the District cannot use these funds to finance its programs. As of June 30, 2006, the District has one fiduciary fund, the June Sucker Recovery Agreement Fund, which is a private purpose trust fund.

June Sucker Recovery Agreement Fund

The District, along with other state and federal agencies, entered into an agreement with the U.S. Fish and Wildlife Service to rehabilitate the June Sucker, a Utah native fish on the endangered species listing. The other state and federal agencies participate in the program and contribute financially. The District administers the funds on behalf of those who are a party to the agreement.

(c) Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied.

Measurement Focus

On the government-wide statement of net assets and the statement of activities, governmental activities are presented using the economic resources measurement focus and accrual basis of accounting. Accordingly, these statements recognize the effect of exchange and exchange-like transactions when the exchange takes place.

All governmental funds utilize a "current financial resources" measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.

The statement of fiduciary net assets and the statement of changes in fiduciary net assets are presented using the economic resources measurement focus and accrual basis of accounting.

Basis of Accounting

In the government-wide statement of net assets and statement of activities, governmental activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset is used. Revenues, expenses, gains, losses, assets, and liabilities resulting from imposed nonexchange transactions, excluding property taxes, are recognized in the period when enforceable legal claim has arisen or when resources are received, whichever is first. Property tax revenue is recorded in the period levied, net of an allowance for uncollectible amounts, if any. Program revenues for CUPCA consist of contributions from the U.S. Department of the Interior. Program revenues for water treatment plants and other projects consist of charges to customers for services provided.

CENTRAL UTAH WATER CONSERVANCY DISTRICT

Note to Basic Financial Statements

June 30, 2006

In the fund financial statements, governmental funds are presented on the modified-accrual basis of accounting. Under the modified-accrual basis of accounting, expenditures other than debt service expenditures are recognized when a fund liability is incurred. Debt service expenditures, including principal and interest on long-term debt and issue costs paid out of debt proceeds, are reported as expenditures when the payment is due. All liabilities of governmental funds are expected to be liquidated with expendable available resources. Under the modified-accrual basis of accounting, all exchange revenues are recognized in the accounting period in which they become available and measurable. Revenue is considered available if it can be collected within a period of 60 days following the close of a fiscal year. Water treatment and delivery revenues, as well as property and other tax revenues, are susceptible to accrual. Accounts receivable are recorded for water treatment and delivery revenues when services are rendered, and for property and other tax revenues when levied, with the unrecognized portion reported as deferred revenue.

The fiduciary funds financial statements are presented using the accrual basis of accounting.

(d) Use of Estimates

The preparation of basic financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosures of contingent assets and liabilities at the date of the basic financial statements, and the reported amounts of revenues and expenses, during the reporting period. Actual results could differ from those estimates.

(e) Cash and Cash Equivalents

The District considers all highly liquid investments, including restricted assets with maturities of three months or less when purchased, to be cash and cash equivalents, which totaled \$105,348,914 as of June 30, 2006.

(f) Investments

Investments are stated at fair value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. All investment income, including changes in the fair value of investments, is recognized as revenue (expense) in the governmental activities statement of activities and the governmental fund statements.

(g) Capital Assets

In the government-wide financial statements, capital assets are valued at historical cost, except for donated fixed assets, which are reported at their estimated fair value at the date of donation. Costs incurred for repairs and maintenance that do not extend the useful life of an asset are recorded as expense in the statement of activities. Additions, improvements, and betterments that provide future benefit and exceed the District's capitalization threshold for capital assets of \$5,000 are recorded as capital assets in the accompanying statement of net assets.

CENTRAL UTAH WATER CONSERVANCY DISTRICT

Note to Basic Financial Statements

June 30, 2006

Depreciation of all exhaustible fixed assets is recorded as an allocated expense in the statement of activities, with accumulated depreciation reflected in the statement of net assets. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives is from 3 to 30 years. Water and aqueduct rights and privileges extend into perpetuity and, accordingly, are not depreciated.

In the fund financial statements, costs related to capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition.

(h) Long-Term Liabilities

All long-term debt and other long-term liabilities to be repaid from governmental resources are reported as liabilities in the government-wide financial statements. The long-term debt consists primarily of general obligation and revenue bonds and U.S. government obligations. Repayment of principal is recorded as a reduction of the liability, and interest expense is recorded as incurred.

Long-term debt and other long-term liabilities are not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources, and payment of principal and interest is reported as expenditures in the Debt Service Fund when due and payable.

(i) Net Asset Classifications

In the government-wide financial statements, net assets are displayed in three components:

- *Invested in capital assets, net of related debt* – consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- *Restricted net assets* – consists of net assets with constraints placed on their use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments or (2) law through constitutional provisions or enabling legislation.
- *Unrestricted net assets* – all other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

Governmental fund equity is classified as fund balance. Fund balance is classified as either reserved or unreserved, with unreserved further split between designated and undesignated. Amounts are classified as reserved when amounts are required to be reserved for a specific purpose, either through legislation or third-party contracts. Unreserved amounts can be designated for a specific purpose by the Board.

(j) Interfund Transactions

Transactions that constitute reimbursements to a fund for expenditures initially made from that fund, which are properly applicable to another fund, are recorded as expenditures in the reimbursing fund and as reductions of expenditures in the fund that is reimbursed. All other interfund transactions are reported as operating transfers. Interfund transactions between funds within governmental activities are eliminated in the accompanying statement of net assets and statement of activities.

CENTRAL UTAH WATER CONSERVANCY DISTRICT

Note to Basic Financial Statements

June 30, 2006

(k) Property Tax Revenue

Property tax revenue is collected and remitted by the various county treasurers as agents for the District.

State of Utah statutes establish the process by which taxes are levied and collected. Property taxes are assessed as of January 1 of the year in which they are due. September 1 is the levy date with a due date of November 30. Delinquent taxes are subject to a 2% penalty, with a \$10 minimum penalty. If delinquent taxes and penalties are not paid by January 15 of the following year, these delinquent taxes, including penalties, are subject to an interest charge at a rate equal to the federal discount rate; the interest period is from January 1 until the date paid. If in May of the fifth year the taxes remain delinquent, the county advertises and sells the property at a tax sale. Therefore, property taxes are ultimately collectible and no allowance for doubtful accounts is considered necessary.

In the fund financial statements, property tax revenue is considered available and recorded as revenue in the period levied to the extent it is collected within 60 days following the close of a fiscal year-end. Property tax revenue is recorded in the government-wide financial statements in the period levied.

(l) Expenditures/Expenses

In the government-wide financial statements, expenses are classified by function for governmental activities. In the fund financial statements, expenditures are classified by character for governmental activities. When an expense is incurred for which both restricted and unrestricted resources are available, the unrestricted resources are first applied.

(m) Compensated Absences

The District's policy regarding vacation time permits employees to accumulate earned but unused vacation leave. The liability for these compensated absences is recorded as an accrued liability in the accompanying government-wide statement of net assets when earned. The liability for these compensated absences is recognized in the fund financial statements as payments come due each period.

(2) Deposits and Investments

(a) Deposits

The District maintains a cash and investment pool that is available for use by the General and Capital Projects Funds. Income from the investment of pooled cash is allocated based on the average ending balance of the General and Capital Projects Funds to the investment pool. Each fund type's portion of this pool is displayed on the balance sheet as "cash and cash equivalents" and "investments."

State law requires that the District follow the requirements of the Utah Money Management Act (the Act) (Utah Code Annotated 1953, Section 51, Chapter 7) in handling its depository and temporary investment transactions. This law requires the District to deposit funds in a "qualified depository," defined as any financial institution that has been certified by the Utah State Commissioner of Financial Institutions.

CENTRAL UTAH WATER CONSERVANCY DISTRICT

Note to Basic Financial Statements

June 30, 2006

The Act also defines the types of securities allowed as appropriate temporary investments for the District and the conditions for making investment transactions. Investment transactions are to be conducted through qualified depositories or primary reporting dealers.

Cash, cash equivalents, and investments at June 30, 2006 consist of:

Cash deposits	\$ 26,069,982
Cash equivalents and investments	<u>90,742,167</u>
Total cash, cash equivalents, and investments	<u>\$ 116,812,149</u>

These amounts are included in the following balances on the statement of net assets as follows:

Unrestricted:	
Cash and cash equivalents	\$ 21,572,087
Investments	<u>9,935,938</u>
Restricted:	
Cash and cash equivalents	83,776,827
Investments	<u>1,527,297</u>
Total cash, cash equivalents, and investments	<u>\$ 116,812,149</u>

Custodial Credit Risk – Deposits

The custodial credit risk for deposits is the risk that in the event of a bank failure, the District's deposits may not be recovered. The Money Management Act requires deposits be in a qualified depository. The Act defines a qualified depository as any agency of the federal government and which has been certified by the Utah State Commissioner of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the Utah Money Management Council.

At June 30, 2006, the total carrying amount of the District's restricted and unrestricted cash deposits (net of outstanding checks) was \$26,069,982, and the bank balances were \$26,640,885. Of the bank balances, \$100,000 was covered by federal depository insurance and \$26,540,885 was uninsured. No deposits are collateralized and collateralization is not required by state statute.

CENTRAL UTAH WATER CONSERVANCY DISTRICT

Note to Basic Financial Statements

June 30, 2006

Restricted cash and cash equivalents and investments consisted of the following at June 30, 2006:

	<u>General Fund</u>	<u>CUPCA Fund</u>	<u>Debt Service Fund</u>
Emergency Reserve Fund (note 7)	\$ 654,543	—	—
Replacement Reserve Fund (note 7)	654,543	—	—
Power Loss Reserve	1,349,957	—	—
O&M Reserve	73,261	—	—
Central Utah Project Completion Act (note 8)	—	34,372,095	—
Debt Service Fund	—	—	48,199,725
	<hr/>	<hr/>	<hr/>
Total restricted cash and cash equivalents and investments	\$ <u>2,732,304</u>	<u>34,372,095</u>	<u>48,199,725</u>

(b) Investments

The Money Management Act defines the types of securities authorized as appropriate investments and the conditions for making investment transactions. Investment transactions may be conducted only through qualified depositories, certified dealers, or directly with issuers of the investment securities.

The Act authorizes investments in both negotiable and nonnegotiable deposits of qualified depositories and permitted depositories; repurchase and reverse repurchase agreements; commercial paper that is classified as "first tier" by two nationally recognized statistical rating organizations, one of which must be Moody's Investors Service or Standard & Poor's; bankers' acceptances; obligations of the United States Treasury including bills, notes, and bonds; obligations, other than mortgage derivative products, issued by U.S. government sponsored enterprises (U.S. Agencies) such as the Federal Home Loan Bank System, Federal Home Loan Mortgage Corporation (Freddie Mac), Federal National Mortgage Association (Fannie Mae), and Student Loan Marketing Association (Sallie Mae); bonds, notes, and other evidence of indebtedness of political subdivisions of the State; fixed rate corporate obligations and variable rate securities rated "A" or higher, or the equivalent of "A" or higher, by two nationally recognized statistical rating organizations; and shares or certificates in money market mutual funds as defined in the Act.

The Act permits investing according to the rules of the Utah Money Management Council (the Council) for certain funds with a long-term perspective and funds acquired by gift, private grant, and the corpus of funds functioning as endowments. The Council's Rule 2 allows the District to invest these funds in any of the above investments or in any of the following, subject to satisfying certain criteria: professionally managed pooled or commingled investment funds, or mutual funds which satisfy certain criteria; common stock, convertible preferred stock or convertible bonds; corporate bonds or debentures; and alternative investments as defined in the rule.

CENTRAL UTAH WATER CONSERVANCY DISTRICT

Note to Basic Financial Statements

June 30, 2006

The Utah State Treasurer's Office operates the Utah Public Treasurer's Investment Fund (PTIF) which is invested in accordance with the State Money Management Act. The State Money Management Council provides regulatory oversight for the PTIF. The PTIF is available for investment funds administered by any Utah Public Treasurer.

The PTIF is not registered with the SEC as an investment company. The PTIF is authorized and regulated by the Utah Money Management Act, Section 51-7, *Utah Code Annotated*, 1953, as amended. The Act established the Council, which oversees the activities of the State Treasurer and the PTIF and details the types of authorized investments. Deposits in the PTIF are not insured or otherwise guaranteed by the State of Utah, and participants share proportionally in any gains or losses on investments.

The following summarizes the District's investments, including cash equivalents, recorded at fair value, at June 30, 2006:

	General	CUPCA	Debt Service	Capital Projects	Total (fair value)	Total (at cost)
Unrestricted investments:						
Utah Public Treasurer's						
Investment Fund	\$ 8,155,736	—	—	12,398,647	20,554,383	20,552,212
Corporate bonds	—	—	—	9,935,938	9,935,938	9,994,200
Restricted investments:						
U.S. government securities	—	—	13,823,427	—	13,823,427	13,353,642
Utah Public Treasurer's						
Investment Fund	2,732,304	9,319,817	32,849,001	—	44,901,122	45,603,478
Commercial paper	—	—	1,527,297	—	1,527,297	1,527,297
Total	\$ 10,888,040	9,319,817	48,199,725	22,334,585	90,742,167	91,030,829

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment.

The District's policy for managing interest rate risk is to comply with the State's Money Management Act. Section 51-7-11 of the Act requires that the remaining term to maturity of investments may not exceed the period of availability of the funds to be invested. The Act further limits the remaining term to maturity on all investments in commercial paper, bankers' acceptances, fixed-rate negotiable deposits, and fixed-rate corporate obligations to 270 – 365 days or less. In addition, variable-rate securities may not have a remaining term to final maturity exceeding two years.

Credit Risk of Debt Securities

Credit Risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The District follows the Money Management Act as previously discussed as its policy for reducing exposure to investment credit risk.

CENTRAL UTAH WATER CONSERVANCY DISTRICT

Note to Basic Financial Statements

June 30, 2006

The District's rated debt investments as of June 30, 2006 were rated by Moody's and/or an equivalent nationally recognized statistical rating organization, and the ratings are presented below using the Moody's rating scale:

Debt investments	Fair value	Quality ratings			Effective weighted duration
		Aaa	A1*	Not rated	
Unrestricted investments:					
Utah Public Treasurer's Investment Fund	\$ 20,554,383	—	—	20,554,383	N/A
Corporate bonds	9,935,938	9,935,938	—	—	0.59
Restricted investments:					
U.S. government securities	13,823,427	13,823,427	—	—	0.24
Utah Public Treasurer's Investment Fund	44,901,122	—	—	44,901,122	N/A
Commercial paper	1,527,297	—	1,527,297	—	0.25

* A1 is a commercial paper rating

The Utah Public Treasurer's Investment Fund is a pooled investment fund managed by the Utah State Treasurer. The fair value of the District's position in the pool is equal to the value of the pool shares.

(3) Water and Aqueduct Rights and Privileges

Under the provisions of the contract between the District and the United States Department of the Interior, Bureau of Reclamation (the Bureau), the title to project works constructed or acquired by the Bureau shall remain with the Bureau notwithstanding transfer of the care, operation, and maintenance of said works to the District. The contract further provides that the District shall have the permanent right to use and dispose of project water as such water is made available to it pursuant to development block notices and in compliance with applicable Reclamation Law. When all of the project water of a project has been made available, the District shall thereafter have the permanent right to the annual water yield from such project subject to certain rights reserved for the United States as provided in the contract.

Water and aqueduct rights and privileges have been capitalized at the amounts originally payable to the Bureau for development blocks completed (note 5) and other payments made directly to the Bureau.

CENTRAL UTAH WATER CONSERVANCY DISTRICT

Note to Basic Financial Statements

June 30, 2006

Water and aqueduct rights and privileges included in the accompanying government-wide statement of net assets as of June 30, 2006 are comprised as follows:

<u>Block notice number</u>		
1	21,400 acre-feet of water from Starvation Reservoir for irrigation purposes; issued June 26, 1970	\$ 4,698,100
1A	15,100 acre-feet of water from Starvation Reservoir for irrigation purposes; issued April 1, 2000	2,340,500
1B	3,000 acre-feet of water from Starvation Reservoir for irrigation purposes; issued August 2, 2004	285,000
2	200 acre-feet of water from Starvation Reservoir for municipal, domestic, and miscellaneous purposes; issued May 29, 1975	255,000
	Municipal and industrial amendment; issued March 19, 1980	123,310
	Municipal and industrial amendment; issued January 1, 1988	15,690
	Municipal and industrial amendment; issued June 23, 1997	652,424
3	300 acre-feet of water from Starvation Reservoir for municipal, domestic, and miscellaneous purposes; issued December 13, 1979	578,000
	Municipal and industrial amendment; issued January 1, 1988	13,000
	Municipal and industrial amendment; issued June 23, 1997	978,636
4A	11,000 acre-feet of water from project water for municipal, industrial, and miscellaneous purposes; issued May 16, 1987	14,329,000
	Municipal and industrial amendment; issued January 1, 1988	1,459,000
	Municipal and industrial amendment; issued May 8, 1995	14,754,160
	Municipal and industrial amendment; issued June 23, 1997	27,011,160
4B	9,000 acre-feet of water from project water and costs of additional facilities for municipal, industrial, and miscellaneous purposes; issued November 12, 1987	19,447,000
	Municipal and industrial amendment; issued May 8, 1995	5,542,040
	Municipal and industrial amendment; issued June 23, 1997	22,100,040
Special Block Notice 1	260 acre-feet of water from Strawberry Reservoir for industrial and miscellaneous purposes; issued November 12, 1987	512,000
	Municipal and industrial amendment; issued June 7, 1995	209,906
	Municipal and industrial amendment; issued June 23, 1997	638,445
Special Block Notice 2	5,000 acre-feet of water from Jordanelle Reservoir for municipal and industrial purposes; issued March 31, 1995	22,030,650
	Municipal and industrial amendment; issued June 23, 1997	4,129,950
5A	13,800 acre-feet of water from Jordanelle Reservoir for municipal and industrial purposes; issued May 30, 1997	72,203,256

CENTRAL UTAH WATER CONSERVANCY DISTRICT

Note to Basic Financial Statements

June 30, 2006

Block notice number		
5B	2,400 acre-feet of water from Jordanelle Reservoir for municipal and industrial purposes; issued April 1, 2000	\$ 12,557,102
5C	7,900 acre-feet of water from Jordanelle Reservoir for municipal and industrial purposes; issued June 24, 2002	20,000,000
5D	1,590 acre-feet of water from Strawberry Reservoir for municipal and industrial purposes; issued June 30, 2003	6,145,589
6	43,300 acre-feet of water from Strawberry Reservoir for municipal and industrial purposes; issued June 30, 2004	<u>156,274,609</u>
	Total block notices	409,283,567
	Water rights in Jordanelle Aqueduct System	10,000,000
	Water rights in Utah Lake (85,000 acre-feet)	13,940,000
	Water rights of the Geneva Steel District	<u>79,725,000</u>
	Total water rights and privileges (note 4)	512,948,567
	Aqueduct rights and privileges (note 4)	<u>23,536,420</u>
	Total	<u>\$ 536,484,987</u>

CENTRAL UTAH WATER CONSERVANCY DISTRICT

Note to Basic Financial Statements

June 30, 2006

(4) Capital Assets

A summary of changes in capital assets for the year ended June 30, 2006 is as follows:

	Balances, June 30, 2005	Additions	Deletions	Balances, June 30, 2006
Nondepreciable capital assets:				
Water rights and privileges	\$ 512,948,567	—	—	512,948,567
Aqueduct rights and privileges	23,536,420	—	—	23,536,420
Land, rights, and water stock	1,222,784	—	—	1,222,784
Total nondepreciable capital assets	<u>537,707,771</u>	<u>—</u>	<u>—</u>	<u>537,707,771</u>
Depreciable capital assets:				
MWD Conveyance Facility	5,000,000	3,400,000	—	8,400,000
Jordenelle Hydropower	150,147	1,074,128	—	1,224,275
Jordan Valley Water Treatment Plant	36,996,806	—	—	36,996,806
Utah Valley Water Treatment Plant	34,912,813	9,768,979	—	44,681,792
Ashley Valley Water Treatment Plant	16,038,368	120,941	—	16,159,309
Jordan Terminal Reservoir (note 8)	18,784,442	—	—	18,784,442
Duchesne Valley Water Treatment Plant	6,804,707	241,603	—	7,046,310
District office facilities	4,743,160	886,629	(42,233)	5,587,556
Vehicles and other equipment	1,642,322	209,085	(147,435)	1,703,972
Total depreciable capital assets	<u>125,072,765</u>	<u>15,701,365</u>	<u>(189,668)</u>	<u>140,584,462</u>
Accumulated depreciation:				
Treatment plants and reservoir	(64,641,568)	(3,563,797)	—	(68,205,365)
Office facilities	(1,375,680)	(231,322)	42,233	(1,564,769)
District vehicles	(1,431,379)	(159,441)	147,435	(1,443,385)
Total accumulated depreciation	<u>(67,448,627)</u>	<u>(3,954,560)</u>	<u>189,668</u>	<u>(71,213,519)</u>
Depreciable capital assets, net	<u>57,624,138</u>	<u>11,746,805</u>	<u>—</u>	<u>69,370,943</u>
Capital assets, net	<u>\$ 595,331,909</u>	<u>11,746,805</u>	<u>—</u>	<u>607,078,714</u>

CENTRAL UTAH WATER CONSERVANCY DISTRICT

Note to Basic Financial Statements

June 30, 2006

Depreciation expense of \$3,563,797 related to treatment plants and reservoirs is allocated to water treatment plants and other projects in the accompanying government-wide statement of activities. Depreciation expense of \$390,763 related to office facilities and vehicles is recorded as expense of the general government in the statement of activities, as the related capital assets essentially serve all functions.

(5) Contract Obligations and Long-Term Debt

Under terms of an original contract between the District and the Bureau for the construction of facilities of the Bonneville Unit of the Central Utah Project (the Project), the District agreed to pay the Bureau the project repayment obligation of \$130,673,000, plus 20% for possible increases in construction costs, as project facilities are completed and the water from these project facilities becomes available for use. The Bureau establishes developmental blocks and apportions to each block an appropriate part of the District's repayment obligations based on the nature of the water use therein. Any block notice issued with respect thereto is subject to adjustment, depending on the facilities finally constructed, and on the allocation of construction costs and allotments of the project water to irrigation and municipal and industrial uses as made by the United States Government in accordance with Reclamation Law. The District's original repayment obligation of \$130,673,000 was increased by 20% to \$156,808,000 for increases resulting from price increases for construction of project works. The District's repayment obligation is based on the Definite Plan Report dated August 1964.

Due to substantial increases in the estimated costs to complete the Bonneville Unit of the Central Utah Project, the District negotiated a supplemental repayment contract with the Bureau that was approved by the District voters in 1985. The 1985 Supplemental Repayment Contract does not alter the original repayment contract noted in the preceding paragraph and provides for an additional \$335,000,000, plus a maximum of 10% for cost increase, to be paid by the District.

As projects are completed and block notices are issued under the above-described repayment contracts, the District assumes full responsibility for repayment of such debt. Under terms of the repayment contracts, 34% of the debt for municipal and industrial water is to be repaid from District-assessed property tax revenues. The source of repayment for the remaining 66% of the debt is anticipated to be generated from water usage fees arising from municipal and industrial users. It is the District's anticipation that such usage contracts will be entered into as projects are completed; however, any shortfall arising from an inability to generate user fees will be the responsibility of the District. Such debt is generally to be repaid over a period not to exceed a 50-year term, at an interest rate not to exceed 3.222%.

CENTRAL UTAH WATER CONSERVANCY DISTRICT

Note to Basic Financial Statements

June 30, 2006

Debt Disclosures – The District and the Bureau amended the repayment contract in fiscal years 2005, 2002, 2000, 1999, 1998, and 1997, which allowed the District to prepay the Bureau for Block Notices originally issued. The actual amount prepaid to retire the outstanding principal balances totaling \$483,916,350 was \$315,907,476. Below is a listing of the original present values of the prepayment amounts:

Prepayment period	Principal (P)	Interest (I)	(P + I)
2005 Prepayment	\$ 234,524,940	188,883,426	423,408,366
2002 Prepayment	41,333,796	35,061,917	76,395,713
2000 Prepayment	12,557,102	11,509,184	24,066,286
1999 Prepayment	2,388,685	7,204,709	9,593,394
1998 Prepayment	127,626,496	109,519,843	237,146,339
1997 Prepayment	65,485,331	46,727,369	112,212,700
Totals	\$ 483,916,350	398,906,448	882,822,798

The amount prepaid will be applied against the District's total outstanding contractual block notice obligation as 50 annual credits. Certain bond issues require the establishment of a bond service fund and bond reserve fund in amounts as indicated in the respective bond agreements.

Advance Refunding

On April 6, 2006, the District issued General Obligation (2006 Limited Tax) Refunding Bonds. The bonds were issued in the original amount of \$22,810,000, plus \$430,815 reoffering premium, with interest from 4% to 5%. The net proceeds of \$22,824,613 (after payment of \$416,202 in underwriting fees, insurance, and other issuance costs) was deposited in an escrow account to provide future debt service payments on the 1998D General Obligation Bonds. As a result, a portion of the 1998D General Obligation Bond is considered to be defeased and the liability for the bond has been removed from the general long-term debt account group.

The District advance refunded the 1998D General Obligation Bonds to reduce its total debt service payments over the next 21 years by almost \$2.3 million, and to obtain an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$1.4 million.

In previous years, the District defeased certain general obligation and other bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the District's basic financial statements.

The foregoing contract obligations, which represent block notices issued on water made available to the District to date and obligations for Utah Lake water rights, are recorded as long-term debt in the accompanying government-wide statement of net assets, and principal and interest payments are made from the Debt Service Fund. All obligations and principal and interest payments are included and reported as part of the government-wide financial statements.

CENTRAL UTAH WATER CONSERVANCY DISTRICT

Note to Basic Financial Statements

June 30, 2006

A summary of changes in general long-term debt is as follows:

	<u>June 30, 2005</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2006</u>
General obligation and revenue bonds	\$ 424,450,915	42,940,815	(28,732,764)	438,658,966
U.S. government obligations	8,055,270	—	(99,055)	7,956,215
	<u>\$ 432,506,185</u>	<u>42,940,815</u>	<u>(28,831,819)</u>	<u>446,615,181</u>

CENTRAL UTAH WATER CONSERVANCY DISTRICT

Note to Basic Financial Statements

June 30, 2006

A summary of payments and balances for the year ended June 30, 2006 is as follows:

	<u>2006 payments</u>		<u>Principal balances at June 30, 2006</u>
	<u>Principal</u>	<u>Interest</u>	
Block Notice 1 – issued in the original amount of \$4,698,100 in 1970; annual payments of principal only of \$18,620 through 2021, then \$960,395 through 2025	\$ 18,620	—	4,120,880
Block Notice 1A – issued in the original amount of \$2,340,500 in 2000; annual payments of principal only of \$46,810 through 2050	46,810	—	2,059,640
Block Notice 1B – issued in the original amount of \$285,000 in 2005; annual payments of principal only of \$5,700 through 2055	5,700	—	279,300
Block Notice 2 – issued in the original amount of \$255,000 in 1975; with an additional \$123,310 added in 1980, an additional \$15,690 added in 1988, and an additional \$652,424 added in 1997; interest at 3.222%; annual payments of principal and interest of \$65,606 through 2015	47,777	17,829	505,571
Block Notice 3 – issued in the original amount of \$578,000 in 1979; with an additional \$13,000 added in 1988 and an additional \$978,636 added in 1997; interest at 3.222%; annual payments of principal and interest of \$84,608 through 2021	50,939	33,669	994,023
Block Notice 4A – issued in the original amount of \$14,329,000 in 1987; with an additional \$1,459,000 added in 1988, an additional \$14,754,160 added in 1995, and an additional \$27,011,160 added in 1997; interest at 3.222%; annual payments of principal and interest of \$2,524,854 through 2035	975,142	1,549,712	47,122,670

CENTRAL UTAH WATER CONSERVANCY DISTRICT

Note to Basic Financial Statements

June 30, 2006

	<u>2006 payments</u>		<u>Principal balances at June 30, 2006</u>
	<u>Principal</u>	<u>Interest</u>	
Block Notice 4B – issued in the original amount of \$19,447,000 in 1987; with an additional \$5,542,040 added in 1995 and an additional \$22,100,040 added in 1997; interest at 3.222%; annual payments of principal and interest of \$2,041,688 through 2035	\$ 788,536	1,253,152	38,105,085
Block Notice 5A – issued in the original amount of \$72,203,256 in 1997; annual payments of principal and interest of \$2,834,316	748,192	2,086,124	63,998,055
Block Notice 5B – issued in the original amount of \$12,557,102 in 2000; annual payments of principal and interest of \$501,382	132,353	369,029	11,321,050
Block Notice 5C – issued in the original amount of \$41,333,796 in 2003; annual payments of principal and interest of \$1,697,683	448,148	1,249,535	38,333,199
Block Notice 5D – issued in the original amount of \$8,319,087 in 2003; annual payments of principal and interest of \$345,198	91,124	254,074	7,794,486
Block Notice 6 – issued in the original amount of \$226,551,051 in 2004; annual payments of principal and interest of \$9,501,508	2,508,172	6,993,336	214,541,371
Special Block Notice 1 – issued in the original amount of \$512,000 in 1987; with an additional \$209,906 added in 1996 and an additional \$638,445 added in 1997; interest at 3.222%; annual payments of principal and interest of \$57,907 through 2037	20,990	36,917	1,124,784

CENTRAL UTAH WATER CONSERVANCY DISTRICT

Note to Basic Financial Statements

June 30, 2006

	<u>2006 payments</u>		<u>Principal balances at June 30, 2006</u>
	<u>Principal</u>	<u>Interest</u>	
Special Block Notice 2 – issued in the original amount of \$22,030,650 in 1995; with an additional \$4,129,950 added in 1997; interest at 3.222%; annual payments of principal and interest of \$1,036,565 through 2037	\$ 300,938	735,627	22,530,429
Block Notice Prepayment – issued in the original amount of \$65,485,331 in 1997. This amount represents a prepayment of \$35,500,000 toward existing Block Notices, which had a present value of \$112,212,700, as if paid in annual payments consisting of principal in the amount of \$65,485,331 and interest in the amount of \$46,727,369. The \$112,212,700 is applied against the District's total outstanding contractual Block Notice obligation as 50 annual credits of \$2,244,254	(761,237)	(1,483,017)	(58,845,091)
Block Notice Prepayment – issued in the original amount of \$127,626,496 in 1998. This amount represents a prepayment of \$98,332,476 toward existing Block Notices, which had a present value of \$237,146,339, as if paid in annual payments consisting of principal in the amount of \$127,626,496 and interest in the amount of \$109,519,843. The \$237,146,339 is applied against the District's total outstanding contractual Block Notice obligation as 50 annual credits at various amounts.	(2,171,277)	(4,230,013)	(115,535,526)

CENTRAL UTAH WATER CONSERVANCY DISTRICT

Note to Basic Financial Statements

June 30, 2006

	<u>2006 payments</u>		<u>Principal balances at June 30, 2006</u>
	<u>Principal</u>	<u>Interest</u>	
Block Notice Prepayment – issued in the original amount of \$12,557,102 in 2000. This amount represents a prepayment of \$4,260,556 toward existing Block Notices, which had a present value of \$24,066,286, as if paid in annual payments consisting of principal in the amount of \$12,557,102 and interest in the amount of \$11,509,184. The \$24,066,286 is applied against the District's total outstanding contractual Block Notice obligation as 47 annual credits at various amounts	\$ (132,353)	(369,029)	(11,321,050)
Block Notice Prepayment – issued in the original amount of \$41,333,796 in 2003. This amount represents a prepayment of \$20,131,736 toward existing Block Notices, which had a present value of \$76,395,713, as if paid in annual payments consisting of principal in the amount of \$41,333,796 and interest in the amount of \$35,061,917. The \$76,395,713 is applied against the District's total outstanding contractual Block Notice obligation as 45 annual credits at various amounts	(448,148)	(1,249,535)	(38,333,199)
Block Notice Prepayment – issued in the original amount of \$234,524,940 in 2005. This amount represents a prepayment of \$72,449,940 toward existing Block Notices, which had a present value of \$423,405,366, as if paid in annual payments consisting of principal in the amount of \$234,524,940 and interest in the amount of \$188,883,426. The \$234,524,940 is applied against the District's total outstanding contractual Block Notice obligation as 43 annual credits at various amounts	(2,599,296)	(7,247,410)	(222,335,857)

CENTRAL UTAH WATER CONSERVANCY DISTRICT

Note to Basic Financial Statements

June 30, 2006

	<u>2006 payments</u>		<u>Principal balances at June 30, 2006</u>
	<u>Principal</u>	<u>Interest</u>	
Jensen Unit, Central Utah Project repayment contract – issued in the original amount of \$1,885,501 in 1988; interest at 3.222%; annual payments of principal and interest of \$77,039 through 2049	\$ 27,925	49,114	1,496,395
Water Conservancy Revenue Bonds (1994 B Series) – issued in the original amount of \$4,510,000 in October 1994; interest at 0.0%; various installments of principal through 2014	—	—	4,510,000
Water Conservancy Revenue Bonds (1997 Series) – issued in the original amount of \$20,205,000 in October 1996; interest at 3.75% to 5.75%; interest payable semiannually beginning October 1, 1997 and thereafter on each April 1 and October 1 through 2021; various installments of principal through 2021; \$10,445,000 defeased in 2002 and called on October 1, 2007 at 101% plus accrued interest	605,000	302,254	5,245,000
Water Conservancy Revenue Bonds (1998 A Series) – issued in the original amount of \$5,650,000 in 1998; interest at 3.80% to 5.25%; interest payable semiannually beginning October 1, 1998 and thereafter on each April 1 and October 1 through 2009; various installments of principal through 2009	610,000	186,180	3,570,000

CENTRAL UTAH WATER CONSERVANCY DISTRICT

Note to Basic Financial Statements

June 30, 2006

	<u>2006 payments</u>		<u>Principal balances at June 30, 2006</u>
	<u>Principal</u>	<u>Interest</u>	
<p>Water Conservancy Revenue Bonds (1998 B and C Series) – issued in the original amount of \$840,000 and \$1,300,000 B and C bonds, respectively, in 1998. Interest on B bonds is 0%. Interest at 5.75% on C bonds, payable semiannually beginning October 1, 1998 and thereafter on each April 1 and October 1 through 2023. Various installments of B bonds begin in 2024 and conclude in 2028</p>	\$ 26,000	70,035	2,032,000
<p>General Obligation (1998 D Limited Tax) Prepayment Bonds – issued in the original amount of \$50,780,000 in 1999; interest at a variable rate basis, which adjusts with LIBOR, pursuant to a swap agreement, not to exceed 5.50% with reciprocal payments from AFSLP at a fixed rate of 4.91%; interest payable semiannually beginning April 1, 1999 and thereafter on each April 1 and October 1 through 2027; however, the swap agreement discussed in note 6 requires monthly interest payments; various installments of principal through 2027; \$22,145,000 defeased in 2006</p>	2,470,000	1,192,818	8,055,000

CENTRAL UTAH WATER CONSERVANCY DISTRICT

Note to Basic Financial Statements

June 30, 2006

	<u>2006 payments</u>		<u>Principal balances at June 30, 2006</u>
	<u>Principal</u>	<u>Interest</u>	
General Obligation (1998 E Limited Tax) Refunding Bonds – issued in the original amount of \$59,510,000 in 1999; interest at a fixed rate of 4.68% with reciprocal payments from AFSLP to the District on a variable rate basis, which adjusts with LIBOR pursuant to a swap agreement; interest payable semiannually beginning April 1, 1999 and thereafter on each April 1 and October 1 through 2027; however, the swap agreement discussed in note 6 requires monthly interest payments; various installments of principal through 2027	\$ —	2,724,988	59,510,000
General Obligation (1998 F Limited Tax) Refunding Bonds – issued in the original amount of \$36,255,000 in 1998; variable interest rate, which adjusts with LIBOR with the cap provider to make to the District on a variable rate basis on an amount equal to the principal amount if and when the variable interest rate borne by the bonds exceeds 5.15% pursuant to a cap agreement; interest payable semiannually beginning April 1, 1999 and thereafter on each April 1 and October 1 through 2027; however, the cap agreement discussed in note 6 requires monthly interest payments; various installments of principal through 2027	600,000	872,105	29,825,000

CENTRAL UTAH WATER CONSERVANCY DISTRICT

Note to Basic Financial Statements

June 30, 2006

	<u>2006 payments</u>		<u>Principal balances at June 30, 2006</u>
	<u>Principal</u>	<u>Interest</u>	
<p>Water Conservancy Revenue Bonds (2002 A-1 Series) – issued in the original amount of \$11,445,000 in 2002; interest at a fixed rate of 4.17% with reciprocal payments from AFSLP to the District on a variable rate basis, which adjusts with LIBOR pursuant to a swap agreement; interest payable semiannually beginning October 1, 2002 and thereafter on each April 1 and 2021; however, the swap agreement discussed in note 6 requires monthly interest payments; various installments of principal through 2021</p>	\$ 100,000	450,323	11,045,000
<p>General Obligation (2002 A Series) Refunding Bonds – issued in the original amount of \$20,000,000 in 2003; interest at a fixed rate of 3.8% with reciprocal payments from AFSLP to the District on a variable rate basis, which adjusts with LIBOR, pursuant to a swap agreement; interest payable semiannually beginning April 1, 2003 and thereafter on each October 1 and April 1 through 2032; however, the swap agreement discussed in note 6 requires monthly interest payments; various installments of principal through 2032</p>	300,000	729,894	19,400,000
<p>General Obligation (2003 Series) Refunding Bonds – issued in the original amount of \$8,730,000, plus \$190,234 reoffering premium in 2004. Interest at 2.0% to 4.0%, payable semiannually beginning April 1, 2004 and thereafter on each April 1 and October 1 through 2014; various installments of principal through 2014</p>	730,000	251,863	6,843,533

CENTRAL UTAH WATER CONSERVANCY DISTRICT

Note to Basic Financial Statements

June 30, 2006

	<u>2006 payments</u>		<u>Principal balances at June 30, 2006</u>
	<u>Principal</u>	<u>Interest</u>	
Water Conservancy Revenue Bonds (2005 A Series) – issued in the original amount of \$5,800,000 in 2005. Interest at 3.9% to 4.4%, payable semiannually beginning October 1, 2005 and thereafter on each April 1 and October 1 through 2009, various principal payments beginning October 1, 2006 through October 1, 2009	\$ —	209,289	5,800,000
Water Conservancy Revenue Bonds (2005 B Series) – issued in the original amount of \$20,825,000, plus \$1,271,025 reoffering premium in 2005. Interest at 3.5% to 5.0%, payable semiannually beginning October 1, 2005 and thereafter on each April 1 and October 1 through 2022, various principal payments beginning October 1, 2008 through October 1, 2022	—	863,146	22,015,362
Water Conservancy Revenue Bonds (2005 C Series) – issued in the original amount of \$33,100,000 in 2005; interest at a fixed rate of 3.482% with reciprocal payments from AFSLP to the District on a variable rate basis, which adjusts with LIBOR, pursuant to a swap agreement; interest payable semiannually beginning October 1, 2005 and thereafter on each October 1 and April 1 through 2035; however, the swap agreement discussed in note 6 requires monthly interest payments; various installments of principal through 2035	—	1,159,741	33,100,000

CENTRAL UTAH WATER CONSERVANCY DISTRICT

Note to Basic Financial Statements

June 30, 2006

	<u>2006 payments</u>		<u>Principal balances at June 30, 2006</u>
	<u>Principal</u>	<u>Interest</u>	
Water Conservancy Revenue Bonds (2005 D Series) – issued in the original amount of \$20,000,000 in 2005; variable interest, which adjusts with BMA with the cap provider to make to the District on a variable rate basis on an amount if and when the variable interest rate borne by the bonds exceeds 6.0% pursuant to a cap agreement; interest payable semiannually beginning October 1, 2005 and thereafter on each October 1 and April 1 through 2035; however, the cap agreement discussed in note 6 requires monthly interest payments; various installments of principal through 2027	\$ —	584,881	20,000,000
General Obligation (2004 A Series) Refunding Bonds – issued in the original amount of \$54,277,000, plus \$3,694,421 reoffering premium in 2005. Interest at 3.0% to 5.0%, payable semiannually beginning April 1, 2005 and thereafter on each April 1 and October 1 through 2022; various principal payments beginning April 1, 2006 through April 1, 2022.	50,000	2,502,786	57,646,869

CENTRAL UTAH WATER CONSERVANCY DISTRICT

Note to Basic Financial Statements

June 30, 2006

	<u>2006 payments</u>		<u>Principal balances at June 30, 2006</u>
	<u>Principal</u>	<u>Interest</u>	
General Obligation (2004 B Series)			
Refunding Bonds – issued in the amount of \$65,400,000 in 2005; interest at a fixed rate of 4.348% with reciprocal payments from AFSLP to the District on a variable rate basis, which adjusts with LIBOR, pursuant to a swap agreement; interest payable semiannually beginning April 1, 2005 and thereafter on each October 1 and April 1 through 2030; however, the swap agreement discussed in note 6 requires monthly interest payments; various installments of principal through 2032	\$ —	2,780,338	65,400,000
General Obligation (2004 C Series)			
Refunding Bonds – issued in the amount of \$42,400,000 in 2005; variable interest, which adjusts with BMA with the cap provider to make to the District on a variable rate basis on an amount if and when the variable interest rate borne by the bonds exceeds 6.0% pursuant to a cap agreement; interest payable semiannually beginning April 1, 2005 and thereafter on each October 1 and April 1 through 2034; however, the cap agreement discussed in note 6 requires monthly interest payments; various installments of principal through 2027	—	1,220,226	42,400,000

CENTRAL UTAH WATER CONSERVANCY DISTRICT

Note to Basic Financial Statements

June 30, 2006

	<u>2006 payments</u>		<u>Principal balances at June 30, 2006</u>
	<u>Principal</u>	<u>Interest</u>	
Jordanelle Hydroelectric Revenue Bonds (2006 Series) – issued in the original amount of \$19,700,000 in 2006; variable interest, which adjusts with BMA with the cap provider to make to the District on a variable rate basis on an amount if and when the variable interest rate borne by the bonds exceeds 6.0% pursuant to a cap agreement; interest payable semiannually beginning April 1, 2006 and thereafter on each October 1 and April 1 through 2037; however, a cap agreement discussed in note 6 requires monthly interest payments; various installments of principal through 2011	\$ —	—	19,700,000
General Obligation (2006 A Series) Refunding Bonds – issued in the original amount of \$9,410,000, plus \$430,815 reoffering premium in 2006. Interest at 4.0% to 5.0%, principle and interest payable semiannually beginning October 1, 2006 and thereafter on each April 1 and October 1 through 2018	—	—	9,840,815
General Obligation (2006 B Series) Refunding Bonds – issued in the amount of \$13,400,000 in 2006; interest at a fixed rate of 3.74% with reciprocal payments from AFSLP to the District on a variable rate basis, which adjusts with LIBOR, pursuant to a swap agreement; interest payable semiannually beginning October 1, 2006 and thereafter on each October 1 and April 1 through 2027; however, the swap agreement discussed in note 6 requires monthly interest payments; various installments of principal through 2027. The refunding bond included \$679,613 of deferred charges	—	—	12,720,387
Total	\$ <u>5,590,055</u>	<u>16,149,981</u>	<u>446,615,181</u>

CENTRAL UTAH WATER CONSERVANCY DISTRICT

Note to Basic Financial Statements

June 30, 2006

Annual principal maturities on the repayment obligations and related interest using interest rates as of June 30, 2006 for the five years subsequent to June 30, 2006 and thereafter for contracts and block notices and general obligation and revenue bonds, including net interest rate swap impact, are as follows:

Contracts and Block Notices

<u>Fiscal year ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 99,955	48,214	148,169
2008	100,884	47,285	148,169
2009	101,843	46,326	148,169
2010	102,832	45,337	148,169
2011	103,853	44,316	148,169
2012-2016	535,778	205,067	740,845
2017-2021	566,728	176,116	742,844
2022-2026	4,351,475	137,548	4,489,023
2027-2031	552,396	95,501	647,897
2032-2036	602,196	45,548	647,744
2037-2041	337,185	2,403	339,588
2042-2046	262,550	—	262,550
2047-2051	215,740	—	215,740
2052-2056	22,800	—	22,800
Total	\$ <u>7,956,215</u>	<u>893,661</u>	<u>8,849,876</u>

CENTRAL UTAH WATER CONSERVANCY DISTRICT

Note to Basic Financial Statements

June 30, 2006

General Obligation and Revenue Bonds

Using rates as of June 30, 2006, debt service requirements of the variable-rate and fixed-rate debt and net swap payments, assuming current interest rates remain the same for their term, were as follows. As rates vary, variable-rate bond interest payments and net swap payments will vary.

Fiscal year ending June 30	Principal	Interest	Interest rate swaps, net	Total
2007	\$ 7,360,000	18,820,648	(1,505,193)	24,675,455
2008	8,149,000	18,508,461	(1,651,477)	25,005,984
2009	9,088,000	18,069,939	(1,717,402)	25,440,537
2010	11,573,000	17,680,620	(1,691,179)	27,562,441
2011	10,877,000	17,281,296	(1,674,464)	26,483,832
2012-2016	63,145,000	79,433,189	(8,040,469)	134,537,720
2017-2021	75,942,000	64,891,254	(7,106,233)	133,727,021
2022-2026	94,615,000	47,040,936	(6,859,779)	134,796,157
2027-2031	91,388,000	23,295,660	(3,526,962)	111,156,698
2032-2036	60,700,000	5,833,940	(793,735)	65,740,205
2037-2041	1,300,000	23,400	—	1,323,400
Net	434,137,000	310,879,343	(34,566,893)	710,449,450
Less current portion	(7,360,000)	(18,820,648)	1,505,193	(24,675,455)
Add unamortized premiums and deferred charges, net	4,521,966	—	—	4,521,966
Long-term debt, net of current portion	<u>\$ 431,298,966</u>	<u>292,058,695</u>	<u>(33,061,700)</u>	<u>690,295,961</u>

(6) SWAP Agreements

Series 1998 D Bonds

Objective of the Interest Rate Swap. The District's long-term debt strategy is to maintain a mixture of fixed- and variable-rate debt to take advantage of the two markets in order to effectively manage its debt.

Terms. In November 2000, the District entered into a pay-variable, receive-fixed interest rate swap for a portion of its \$50,780,000 Series 1998 D General Obligation (Limited Tax) Bonds, which were originally issued in a fixed rate mode. Under the terms of the swap, which has a notional amount of \$17,805,000 and an expiration date of April 1, 2011, the District pays a variable rate equivalent to the Bond Market Association Municipal Swap Index™ (BMA), which was 3.97% as of June 30, 2006, and receives fixed-rate payments of 4.91%. During the life of the swap, there are no reductions in the notional amount. The District paid swap fees of five basis points at initiation. The District also purchased an interest rate cap at 5.50%, which expired on October 1, 2005, to mitigate its variable rate exposure.

CENTRAL UTAH WATER CONSERVANCY DISTRICT

Note to Basic Financial Statements

June 30, 2006

Fair Value. As of June 30, 2006, the swap had a fair value of \$915,392 calculated under the terms and conditions of the ISDA Master Agreement with its accompanying Schedule and Confirmation (the Swap Agreement). The swap provider, Ambac Financial Services, Limited Partnership (AFSLP), is the Calculation Agent.

Credit Risk. The swap's fair value represented the District's credit exposure to AFSLP as of June 30, 2006. Should AFSLP fail to perform according to the terms of the Swap Agreement, the District faces a maximum possible loss equivalent to the swap's \$915,392 fair value. The obligations of AFSLP are covered by an insurance policy issued by Ambac Assurance Corporation (Ambac). As of June 30, 2006, Ambac was rated Aaa/AAA by Moody's Investors Service and Standard and Poor's, respectively. To mitigate credit risk, if Ambac's credit quality falls below Aa/AA, respectively, the fair value of the swap will be fully collateralized with U.S. government securities. Collateral would be posted with the Trustee.

Interest Rate Risk. The swap increases the District's exposure to variable rates. The risk had been hedged with an interest rate cap that would not allow the variable rate paid by the District to exceed 5.50%, subject to certain terms and conditions, through October 1, 2005. As the BMA increases, the District's net payment on the swap increases.

Termination Risk. The District may terminate the swap at any time. AFSLP may terminate the swap if the District fails to perform under the terms of the Swap Agreement. At the time of termination, the fair value of the swap will be calculated by the Calculation Agent, and the party owing the fair value will pay the fair value to the party due the fair value.

Rollover Risk. The District is not exposed to rollover risk on its swap for the Series 1998 D Bonds, as the swap matures at the same time as the corresponding debt.

Series 1998 E Bonds

Objective of the Interest Rate Swap. The District's long-term debt strategy is to maintain a mixture of fixed and variable-rate debt to take advantage of the two markets in order to effectively manage its debt. In this particular case, the objective was to take advantage of the disparity between the long-term pricing of cash bonds versus that of a synthetic fixed rate accomplished by issuing variable-rate bonds and immediately swapping them into a fixed-rate payment mode.

Terms. In December 1998, the District entered into a pay-fixed, receive-variable interest rate swap for the remaining term of its \$59,510,000 Series 1998 General Obligation (Limited Tax) Variable Rate Bonds. Under the terms outlined in the ISDA Master Agreement with its accompanying Schedule and Confirmation (the Swap Agreement), the District will pay a fixed rate of 4.68% (which amount includes 0.25% per annum payable under the Liquidity Assurance Agreement between AFSLP and the District) and will receive variable rate payments, which shall equal the actual variable rate paid by the District on the Series 1998 E Bonds. Beginning in fiscal year 2010, the notional amount of the swap and the principal amount of the Series 1998 E Bonds begin to decline because of scheduled principal reductions. The District paid swap fees of five basis points at initiation.

Fair Value. As of June 30, 2006, the swap had a negative fair value of \$(1,285,227) calculated under the terms and conditions of the Swap Agreement. AFSLP is the Calculation Agent.

CENTRAL UTAH WATER CONSERVANCY DISTRICT

Note to Basic Financial Statements

June 30, 2006

Credit Risk. As of June 30, 2006, the District was not exposed to credit risk because the swap had a negative fair value. However, should interest rates change in the future and the fair value of the swap becomes positive, the District would be exposed to credit risk on the swap in the amount of its fair value. The obligations of AFSLP are covered by an insurance policy issued by Ambac. As of June 30, 2006, Ambac was rated Aaa/AAA by Moody's Investors Service and Standard and Poor's, respectively. To mitigate credit risk, if Ambac's credit quality falls below Aa/AA, respectively, the fair value of the swap will be fully collateralized with U.S. government securities. Collateral would be posted with the Trustee.

Interest Rate Risk. The swap decreases the District's exposure to variable interest rates. The District is committed to pay a fixed rate through April 2027 while receiving a variable rate from AFSLP, thus offsetting the District's variable-rate payments to the bondholders.

Termination Risk. The District may terminate the swap at any time. AFSLP may terminate the swap if the District fails to perform under the terms of the Swap Agreement. At the time of termination, the fair value of the swap will be calculated by the Calculation Agent and the party owing the fair value will pay the fair value to the party due the fair value.

Rollover Risk. The District is not exposed to rollover risk on its swap for the Series 1998 E Bonds, as the swap matures at the same time as the corresponding debt.

Series 1998 F Bonds

Objective of the Cap Agreement. In December 1998, the District issued its \$36,255,000 General Obligation (Limited Tax) Variable Rate Bonds. In order to hedge its variable interest rate risk, the District purchased an interest rate cap.

Terms. The District purchased an interest rate cap from Morgan Guaranty Trust (Morgan) with a strike price of 5.15% (the Cap Agreement) for \$283,916. Under the terms of the cap, Morgan must pay the District the difference between the BMA and the strike price if the BMA exceeds the strike price for a consecutive period of one month or longer. The original cap was extended at expiration of March 31, 2004 to extend through March 31, 2009. As of June 30, 2006, the District had not received any payments from Morgan because interest rates had not exceeded the strike price for a period of one consecutive month.

Credit Risk. The cap's purchase price represented the District's credit exposure to Morgan as of June 30, 2006. In the event that Morgan does not perform under the terms and conditions of the Cap Agreement, the District is potentially exposed to the full amount of the purchase price of the cap.

Termination Risk. The District and Morgan may terminate the cap if the other party fails to perform under the terms and conditions of the Cap Agreement. The cap may be terminated by the District if Morgan's credit rating falls below "A-" by Fitch Ratings or Standard and Poor's Corporation or "A3" by Moody's Investors Service. The agreement does not provide for any termination fees.

Rollover Risk. The District is not exposed to rollover risk on its cap for the Series 1998 F Bonds at June 30, 2006, as the Cap Agreement was extended to 2009.

CENTRAL UTAH WATER CONSERVANCY DISTRICT

Note to Basic Financial Statements

June 30, 2006

Series 2002 A Revenue Bonds

Objective of the Interest Rate Swap. The District's long-term debt strategy is to maintain a mixture of fixed- and variable-rate debt to take advantage of the two markets in order to effectively manage its debt. In this particular case, the objective was to take advantage of the disparity between the long-term pricing of cash bonds versus that of a synthetic fixed rate accomplished by issuing variable-rate bonds and immediately swapping them into fixed rate payment.

Terms. In March 2002, the District issued its \$11,445,000 Series 2002 A Variable Rate Revenue Refunding Bonds. At the closing, the District also entered into an interest rate swap with AFSLP for a notional amount equaling the principal amount of the Series 2002 A Bonds. The swap will expire on October 1, 2007, and while in effect, AFSLP will pay to the District the variable rate the District pays on the bonds and the District will pay to AFSLP a fixed rate of 4.17%. Beginning in fiscal year 2003, the principal amount of the Series 2002 A Bonds and the notional amount of the swap decreased as a result of scheduled principal payments.

Fair Value. As of June 30, 2006, the swap had a negative fair value of \$(44,392) calculated under the terms and conditions of the ISDA Master Agreement with its accompanying Schedule and Confirmation (the Swap Agreement). The swap provider, AFSLP is the Calculation Agent.

Credit Risk. As of June 30, 2006, the District was not exposed to credit risk because the swap had a negative fair value. However, should interest rates change in the future and the fair value of the swap becomes positive, the District would be exposed to credit risk on the swap in the amount of its fair value. The obligations of AFSLP are covered by an insurance policy issued by Ambac. As of June 30, 2006, Ambac was rated Aaa/AAA by Moody's Investors Service and Standard and Poor's, respectively. To mitigate credit risk, if Ambac's credit quality falls below Aa/AA, respectively, the fair value of the swap will be fully collateralized with U.S. government securities. Collateral would be posted with the Trustee.

Interest Rate Risk. The swap decreases the District's exposure to variable interest rates. The District is committed to pay a fixed rate through April 2007 while receiving a variable rate from AFSLP, thus offsetting the District's variable-rate payments to the bondholders. After that date, which is the Swap Termination Date, the Series 2002 A Bonds will revert to a variable-rate obligation.

Termination Risk. The District may terminate the swap at any time. AFSLP may terminate the swap if the District fails to perform under the terms of the Swap Agreement. At the time of termination, the fair value of the swap will be calculated by the Calculation Agent and the party owing the fair value will pay the fair value to the party due the fair value.

Rollover Risk. The District is exposed to rollover risk on the Series 2002A Revenue Bonds as the swap matures on October 1, 2007. Accordingly, the District will be exposed to variable interest rate risk following expiration of the swap.

Series 2002 A General Obligation Bonds

Objective of the Interest Rate Swap. The District's long-term debt strategy is to maintain a mixture of fixed- and variable-rate debt to take advantage of the two markets in order to effectively manage its debt. In this instance, the District entered into two simultaneous interest rate swaps.

CENTRAL UTAH WATER CONSERVANCY DISTRICT

Note to Basic Financial Statements

June 30, 2006

Terms. In September 2002, the District issued its \$20,000,000 General Obligation (Limited Tax) Refunding Bonds with a final maturity of April 1, 2032. Simultaneously, the District entered into an interest rate swap in which AFSLP pays to the District a variable rate equal to the rate paid by the District on the 2002 A Bonds and the District pays to AFSLP a fixed rate in the amount of 3.82% for the life of the bonds. In addition, the District also entered into a forward starting swap where the District will pay the BMA the same rate paid by the District on the bonds, and will receive from AFSLP a fixed rate in the amount of 4.47%. The latter swap will begin on October 1, 2007. The net effect of the two swaps is that for the first five years the District will pay a fixed rate of 3.82% and beginning on October 1, 2007 the District will pay a variable rate less the difference between the two fixed-rate swaps it is paying the lower of the fixed-rates swaps or 3.82% and receiving the higher of the two fixed-rate swaps or 4.47% of approximately 65 basis points. The District paid swap fees of five basis points at initiation.

Fair Value. As of June 30, 2006, the 3.82% variable to fixed-rate swap had a fair value of \$754,751 calculated under the terms and conditions of the ISDA Master Agreement with its accompanying Schedule and Confirmation (the Swap Agreement). As of the same date, the fair value of the 4.47% fixed to variable rate swap was \$144,394. The swap provider, AFSLP is the Calculation Agent.

Credit Risk. As of June 30, 2006, the District is exposed to credit risk because the swap had a positive fair value. The obligations of AFSLP are covered by an insurance policy issued by Ambac. As of June 30, 2006, Ambac was rated Aaa/AAA by Moody's Investors Service and Standard and Poor's, respectively. To mitigate credit risk, if Ambac's credit quality falls below Aa/AA, respectively, the fair value of the swap will be fully collateralized with U.S. government securities. Collateral would be posted with the Trustee.

Interest Rate Risk. The swap mitigates the District's exposure to variable interest rate risk through October 1, 2007. After October 1, 2007, the swap increases the District's exposure to variable rates. However, this risk has been hedged by the two offsetting fixed-rate payments, thus partially reducing the District's ultimate variable-rate risk by approximately 65 basis points.

Termination Risk. The District may terminate either swap at any time. AFSLP may terminate either swap if the District fails to perform under the terms of the Swap Agreement. At the time of termination, the fair value of the swap to be terminated will be calculated by the Calculation Agent and the party owing the fair value will pay the fair value to the party due the fair value.

Rollover Risk. The District is not exposed to rollover risk on its swap for the Series 2002 A General Obligation Bonds, as the swap matures at the same time as the corresponding debt.

Series 2004 B Bonds

Objective of the Interest Rate Swap. The District's long-term debt strategy is to maintain a mixture of fixed- and variable-rate debt to take advantage of the two markets in order to effectively manage its debt.

Terms. In November 2004, the District entered into a pay-variable, receive-fixed interest rate swap for its Series 2004 B General Obligation (Limited Tax) Bonds, which were originally issued in a fixed rate mode. Under the terms of the swap, which has a notional amount of \$65,400,000 and an expiration date of April 1, 2011, the District pays a variable rate equivalent to the BMA, which was 3.97% as of June 30, 2006, and receives fixed-rate payments of 4.348%. During the life of the swap, there are no reductions in the notional amount. The District paid swap fees of five basis points at initiation.

CENTRAL UTAH WATER CONSERVANCY DISTRICT

Note to Basic Financial Statements

June 30, 2006

Fair Value. As of June 30, 2006, the swap had a fair value of \$284,969 calculated under the terms and conditions of the ISDA Master Agreement with its accompanying Schedule and Confirmation (the Swap Agreement). The swap provider, AFSLP is the Calculation Agent.

Credit Risk. The swap's fair value represented the District's credit exposure to AFSLP as of June 30, 2006. Should AFSLP fail to perform according to the terms of the Swap Agreement, the District faced a maximum possible loss equivalent to the swap's \$284,969 fair value. The obligations of AFSLP are covered by an insurance policy issued by Ambac. As of June 30, 2006, Ambac was rated Aaa/AAA by Moody's Investors Service and Standard and Poor's, respectively. To mitigate credit risk, if Ambac's credit quality falls below Aa/AA, respectively, the fair value of the swap will be fully collateralized with U.S. government securities. Collateral would be posted with the Trustee.

Interest Rate Risk. The swap increases the District's exposure to variable rates. However, this risk has been hedged with an interest rate cap that will not allow the variable rate paid by the District to exceed 5.50%, subject to certain terms and conditions, through October 1, 2005. As the BMA increases, the District's net payment on the swap increases.

Termination Risk. The District may terminate the swap at any time. AFSLP may terminate the swap if the District fails to perform under the terms of the Swap Agreement. At the time of termination, the fair value of the swap will be calculated by the Calculation Agent, and the party owing the fair value will pay the fair value to the party due the fair value.

Rollover Risk. The District is not exposed to rollover risk on its swap for the Series 2004B Bonds, as the swap matures at the same time as the corresponding debt.

Series 2004 C Bonds

Objective of the Cap Agreement. In November 2004, the District issued its \$42,400,000 General Obligation (Limited Tax) Variable Rate Bonds. In order to hedge its variable interest rate risk, the District purchased an interest rate cap.

Terms. The District purchased an interest rate cap from Morgan Guaranty Trust (Morgan) with a strike price of 6.0% (the Cap Agreement) for \$197,000. Under the terms of the cap, Morgan must pay the District the difference between the BMA and the strike price if the BMA exceeds the strike price for a consecutive period of one month or longer. The cap was issued with an expiration of March 31, 2027. As of June 30, 2006, the District had not received any payments from Morgan because interest rates had not exceeded the strike price for a period of one consecutive month.

Credit Risk. The cap's purchase price represented the District's credit exposure to Morgan as of June 30, 2006. In the event that Morgan does not perform under the terms and conditions of the Cap Agreement, the District is potentially exposed to the full amount of the purchase price of the cap.

Termination Risk. The District and Morgan may terminate the swap if the other party fails to perform under the terms and conditions of the Cap Agreement. The cap may be terminated by the District if Morgan's credit rating falls below "A-" by Fitch Ratings or Standard and Poor's Corporation or "A3" by Moody's Investors Service. The agreement does not provide for any termination fees.

CENTRAL UTAH WATER CONSERVANCY DISTRICT

Note to Basic Financial Statements

June 30, 2006

Rollover Risk. The District is not exposed to rollover risk on its cap for the Series 2004 C Bonds at June 30, 2006, as the Cap Agreement extends through 2027.

Series 2005 C Revenue Bonds

Objective of the Interest Rate Swap. The District's long-term debt strategy is to maintain a mixture of fixed and variable-rate debt to take advantage of the two markets in order to effectively manage its debt. In this particular case, the objective was to take advantage of the disparity between the long-term pricing of cash bonds versus that of a synthetic fixed rate accomplished by issuing variable-rate bonds and immediately swapping them into fixed-rate payment.

Terms. In May 2005, the District issued its \$33,100,000 Series 2005 C Variable Rate Revenue Refunding Bonds. At the closing, the District also entered into an interest rate swap with AFSLP for a notional amount equaling the principal amount of the Series 2005C Bonds. The swap will expire on March 31, 2032, and while in effect, AFSLP will pay to the District the variable rate the District pays on the bonds and the District will pay to AFSLP a fixed rate of 3.482%.

Fair Value. As of June 30, 2006, the swap had a fair value of \$1,615,273 calculated under the terms and conditions of the ISDA Master Agreement with its accompanying Schedule and Confirmation (the Swap Agreement). The swap provider, AFSLP is the Calculation Agent.

Credit Risk. As of June 30, 2006, the District is exposed to credit risk because the swap had a positive fair value. The obligations of AFSLP are covered by an insurance policy issued by Ambac. As of June 30, 2006, Ambac was rated Aaa/AAA by Moody's Investors Service and Standard and Poor's, respectively. To mitigate credit risk, if Ambac's credit quality falls below Aa/AA, respectively, the fair value of the swap will be fully collateralized with U.S. government securities. Collateral would be posted with the Trustee.

Interest Rate Risk. The swap decreases the District's exposure to variable interest rates. The District is committed to pay a fixed rate through March 2032 while receiving a variable rate from AFSLP, thus offsetting the District's variable-rate payments to the bondholders. After that date, which is the Swap Termination Date, the Series 2005C Bonds will revert to a variable-rate obligation.

Termination Risk. The District may terminate the swap at any time. AFSLP may terminate the swap if the District fails to perform under the terms of the Swap Agreement. At the time of termination, the fair value of the swap will be calculated by the Calculation Agent and the party owing the fair value will pay the fair value to the party due the fair value.

Rollover Risk. The District is not exposed to rollover risk on its swap for the 2005 C Revenue Bonds at June 30, 2006, as the swap agreement extends through 2032.

Series 2005 D Revenue Bonds

Objective of the Cap Agreement. In May 2005, the District issued its \$20,000,000 Revenue Refunding Variable Rate Bonds. In order to hedge its variable interest rate risk, the District purchased an interest rate cap.

CENTRAL UTAH WATER CONSERVANCY DISTRICT

Note to Basic Financial Statements

June 30, 2006

Terms. The District purchased an interest rate cap from Morgan Guaranty Trust (Morgan) with a strike price of 6.0% (the Cap Agreement) for \$49,500. Under the terms of the cap, Morgan must pay the District the difference between the BMA and the strike price if the BMA exceeds the strike price for a consecutive period of one month or longer. The original cap was issued with an expiration of March 31, 2027. As of June 30, 2006, the District had not received any payments from Morgan because interest rates had not exceeded the strike price for a period of one consecutive month.

Credit Risk. The cap's purchase price represented the District's credit exposure to Morgan as of June 30, 2006. In the event that Morgan does not perform under the terms and conditions of the Cap Agreement, the District is potentially exposed to the full amount of the purchase price of the cap.

Termination Risk. The District and Morgan may terminate the swap if the other party fails to perform under the terms and conditions of the Cap Agreement. The cap may be terminated by the District if Morgan's credit rating falls below "A-" by Fitch Ratings or Standard and Poor's Corporation or "A3" by Moody's Investors Service. The agreement does not provide for any termination fees.

Rollover Risk. The District is not exposed to rollover risk on its swap for the Series 2005 D Bonds at June 30, 2006, as the Cap Agreement extends through 2027.

Series 2006 Revenue Bonds

Objective of the Cap Agreement. In January 2006, the District issued its \$19,700,000 Revenue Variable Rate Bonds. In order to hedge its variable interest rate risk, the District purchased an interest rate cap.

Terms. The District purchased an interest rate cap from Ambac with a strike price of 6.0% (the Cap Agreement) for \$50,000. Under the terms of the cap, Ambac must pay the District the difference between the BMA and the strike price if the BMA exceeds the strike price for a consecutive period of one month or longer. The cap was issued with an expiration of January 26, 2011. As of June 30, 2006, the District had not received any payments from Ambac because interest rates had not exceeded the strike price for a period of one consecutive month.

Credit Risk. The cap's purchase price represented the District's credit exposure to Ambac as of June 30, 2006. In the event that Ambac does not perform under the terms and conditions of the Cap Agreement, the District is potentially exposed to the full amount of the purchase price of the cap.

Termination Risk. The District and Ambac may terminate the swap if the other party fails to perform under the terms and conditions of the Cap Agreement. The cap may be terminated by the District if Ambac's credit rating falls below "A-" by Fitch Ratings or Standard and Poor's Corporation or "A3" by Moody's Investors Service. The agreement does not provide for any termination fees.

Rollover Risk. The District is exposed to rollover risk on the Series 2006 Revenue Bonds as the Cap Agreement matures on January 26, 2011. Accordingly, the District will be exposed to variable interest rate risk.

CENTRAL UTAH WATER CONSERVANCY DISTRICT

Note to Basic Financial Statements

June 30, 2006

Series 2006 B General Obligation Bonds

Objective of the Interest Rate Swap. The District's long-term debt strategy is to maintain a mixture of fixed- and variable-rate debt to take advantage of the two markets in order to effectively manage its debt. In this particular case, the objective was to take advantage of the disparity between the long-term pricing of cash bonds versus that of a synthetic fixed rate accomplished by issuing variable-rate bonds and immediately swapping them into fixed-rate payment.

Terms. In May 2005, the District issued its \$13,400,000 Series 2006 B Variable Rate General Obligation Refunding Bonds. At the closing, the District also entered into an interest rate swap with AFSLP for a notional amount equaling the principal amount of the Series 2006 B Bonds. The swap will expire on April 1, 2027, and while in effect, AFSLP will pay to the District the variable rate the District pays on the bonds and the District will pay to AFSLP a fixed rate of 3.74%.

Fair Value. As of June 30, 2006, the swap had a fair value of \$125,008 calculated under the terms and conditions of the ISDA Master Agreement with its accompanying Schedule and Confirmation (the Swap Agreement). The swap provider, AFSLP is the Calculation Agent.

Credit Risk. As of June 30, 2006, the District is exposed to credit risk because the swap had a positive fair value. The obligations of AFSLP are covered by an insurance policy issued by Ambac. As of June 30, 2006, Ambac was rated Aaa/AAA by Moody's Investor Service and Standard and Poor's, respectively. To mitigate credit risk, if Ambac's credit quality falls below Aa/AA, respectively, the fair value of the swap will be fully collateralized with U.S. government securities. Collateral would be posted with the Trustee.

Interest Rate Risk. The swap decreases the District's exposure to variable interest rates. The District is committed to pay a fixed rate through April 2027 while receiving a variable rate from AFSLP, thus offsetting the District's variable rate payments to the bondholders.

Termination Risk. The District may terminate the swap at any time. AFSLP may terminate the swap if the District fails to perform under the terms of the Swap Agreement. At the time of termination, the fair value of the swap will be calculated by the Calculation Agent and the party owing the fair value will pay the fair value to the party due the fair value.

Rollover Risk. The District is not exposed to rollover risk on its swap for the 2006 B Bonds at June 30, 2006, as the Swap Agreement extends through 2027.

(7) Fund Balance

During 1993, the Board terminated the United States Repayment Reserve and established a contingency fund in the amount of \$1,500,000 in the Capital Projects Fund, with interest thereon, and annual contributions of \$500,000 until the balance reaches \$10,000,000. At June 30, 2006, the balance of the related fund was \$9,487,537, which is included in the future capital project designation in the accompanying governmental funds balance sheet. At June 30, 2006, the balance of the assets designated by the Board to the Capital Projects Fund for future projects was \$11,384,061, which consisted of repurchase agreements and Utah Public Treasurer's Investment Fund assets. Projects in process include the District's

CENTRAL UTAH WATER CONSERVANCY DISTRICT

Note to Basic Financial Statements

June 30, 2006

expansion of its Utah Valley Water Treatment Plant in Utah County to an output production of 120 million gallons per day. The additional plant capacity will serve customers in the present treatment plant service area and in North Utah County.

The District is required under a contract with the Bureau dated December 28, 1965 to establish a Replacement Reserve Fund and an Emergency Reserve Fund for operations and maintenance as development block notices are issued. The contract requires that these funds shall be maintained apart from other District funds. Withdrawal, investment, or other dispositions are subject to the approval of the appropriate United States Contracting Officer. The Replacement Reserve Fund shall be used for replacement of project works such as buildings, short-wave radio facilities, and pumping plants of the District. The Emergency Reserve Fund for operations and maintenance shall be used for payment of the District's share of extraordinary costs of operations and maintenance, and shall be accumulated by the District until the aggregate reserve funds total \$1,000,000 each. During the year ended June 30, 2002, \$1,741,602 was withdrawn from the reserves to help fund the repair of the Alpine Aqueduct Reach 1. Funds will be repaid to the reserves in accordance with contract provisions. At June 30, 2006, the balance of the restricted assets for each of the preceding reserve funds was \$654,543.

During 1992, the Board authorized the creation of a Liability Insurance Reserve to provide for the District's self-insurance needs for auto, theft, burglary, fire, and other such claims. The reserve balance was established at \$1,000,000 and accrues interest to the fund. The District will budget up to \$200,000 annually to replenish the fund when it drops below \$1,000,000. The fund will provide for property, machinery, and insurance premiums, as well as other self-insurance needs. At June 30, 2006, the balance of the restricted assets for these funds was \$1,900,912, with no related liabilities outstanding.

(8) Interfund Transfers

Interfund transfers for the year ended June 30, 2006 consisted of the following:

		Transfers to		
		CUPCA Fund	Debt Service Fund	Capital Projects Fund
				Total
Transfers from General Fund	\$	—	20,235,636	13,387,211
				33,622,847

Amounts transferred to the CUPCA Fund are used for ongoing activities to complete the Central Utah Project. Amounts transferred to the Debt Service Fund are used for debt principal and interest payments. Amounts required to cover reserved and designated fund balances in the General Fund are retained in the General Fund, with any excess available amounts transferred to the Capital Projects Fund.

CENTRAL UTAH WATER CONSERVANCY DISTRICT

Note to Basic Financial Statements

June 30, 2006

(9) Treatment Plant Operating Agreement

The District has entered into an agreement in which the District has granted and delegated complete authority and responsibility to the Jordan Valley Water Conservancy District (JVWCD), formerly Salt Lake County Water Conservancy District, and the Metropolitan Water District of Salt Lake City and Sandy (MWD) for operation and maintenance of the District's Jordan Valley Water Treatment Plant (JVWTP) and Jordan Terminal Reservoir in 1993, which provides for the District to convey title to JVWTP and Jordan Terminal Reservoir without further consideration to the JVWCD and the MWD by special warranty deed upon Jordanelle Reservoir becoming fully operational (when United States Bureau of Reclamation block notices total 50,000 acre-feet) or upon completion of the Jordan Terminal Reservoir expansion, whichever occurs later. Under the terms of the agreement, the JVWCD will own approximately 71.4% and MWD will own 28.6% of JVWTP and Jordan Terminal Reservoir. The conveyance of title of the JVWTP and Jordan Terminal Reservoir is expected to be made in fiscal year 2007.

(10) Central Utah Project Completion Act

On October 30, 1992, the Central Utah Project Completion Act (P.L. 102-575, [106 Stat. 4600]) (the Act) was signed into federal law. The Act authorized approximately \$924,000,000 in federal funds to complete water projects in the ten-county area included in the Central Utah Water Conservancy District. The District must petition Congress for funding on a year-to-year basis and must provide a 35% cost share to match the reimbursable share of the federal portion. The federal reimbursement for the year ended June 30, 2006 totaled \$30.9 million.

The Act gives the District the authority to oversee the planning, design, management, and construction of the remaining facilities of the Central Utah Project; however, the U.S. Department of the Interior retains ownership. The Act emphasizes District-wide public involvement, addresses protection and enhancement of the environment, and creates stream flow levels to protect present and future fisheries. The Act also calls for significant water conservation programs and specific water management plans.

(11) Retirement Plans

The District contributes to the Local Government Noncontributory Retirement System, which is a cost-sharing, multiple-employer defined benefit pension plan administered by the Utah Retirement System (the System). The System provides refunds, retirement benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries in accordance with retirement statutes.

The System was established and governed by the respective sections of Chapter 49 of the Utah Code Annotated 1953 as amended. The Utah State Retirement Office Act in Chapter 49 provides for the administration of the Utah Retirement Systems and Plans under the direction of the Utah State Retirement Board (the Retirement Board) whose members are appointed by the Governor. The System issues a publicly available financial report that includes financial statements and required supplementary information for the Local Government Contributory Retirement System and Local Government Noncontributory Retirement System. A copy of the report may be obtained by writing to the Utah Retirement Systems, 540 East 200 South, Salt Lake City, Utah 84102 or by calling 1-800-365-8772.

CENTRAL UTAH WATER CONSERVANCY DISTRICT

Note to Basic Financial Statements

June 30, 2006

Funding Policy

In the Local Government Noncontributory Retirement System, the District is required to contribute 8.69% of plan members' annual covered salary. The contribution rates are the actuarially determined rates. The contribution requirements of the System are authorized by statute and specified by the Retirement Board. The District's contributions to the Local Government Noncontributory Retirement System for the year ended June 30, 2006 totaled \$431,642.

Under the Internal Revenue Code Section 401(k), the District participates in a defined contribution plan for employees enrolled in the Utah Retirement Noncontributory System. This plan covers all employees within the noncontributory system as described above. The District's contributions for the year ended June 30, 2006 totaled \$60,781. These contributions represent 3.6% of covered salaries and they vest immediately. They may be withdrawn by the employee upon termination or may be used as supplemental income upon retirement.

(12) Postretirement Health Care Benefits

The District provides postretirement health care benefits at no cost to employees hired before July 1, 1994. The Plan is accounted for in accordance with the requirements of FASB Statement No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions*. These benefits are available to all eligible employees retiring from the District. These benefits cover paid health insurance premiums, at retirement, at a rate wherein each eight (8) hours of the employee's accrued sick leave covers one month of paid health insurance for the employee and his/her spouse. The following table presents the Plan's funded status reconciled with amounts recognized in the District's balance sheet at June 30, 2006:

Accumulated postretirement benefit obligation:	
Active plan participants and retirees	\$ 2,141,800
Plan assets at fair value	<u>—</u>
	2,141,800
Unrecognized gain from past expense different from that assumed and from changes in assumptions	<u>471,700</u>
Postretirement benefit liability	<u><u>\$ 1,670,100</u></u>

Net periodic postretirement benefit cost for 2006 includes the following components:

Service cost	\$ 98,700
Interest cost	120,200
Amortization of unrecognized net gain	<u>47,300</u>
Net periodic postretirement benefit cost	<u><u>\$ 266,200</u></u>

CENTRAL UTAH WATER CONSERVANCY DISTRICT

Note to Basic Financial Statements

June 30, 2006

For measurement purposes, a 10.1% annual rate of increase in the per capita cost of covered benefits (i.e., healthcare cost trend rate) was assumed for 2005 for payments prior to the age of 65 and 4.6% for payments after age 64. For fiscal year 2006, the rate was assumed to increase to 10% for all payments independent of age, then decrease gradually to 5% by the fiscal year 2009 and remain at that level thereafter. Increasing the assumed healthcare cost trend rates by one percentage point in each year would increase the accumulated postretirement benefit obligation as of June 30, 2006 by \$323,000 and the aggregate of the service cost and interest cost components of the net periodic postretirement benefit cost for the year then ended by \$37,500. There are 25 active participants in the plan and eight retirees that collect benefits from the plan.

The weighted average discount rate used in determining the accumulated postretirement benefit obligation at June 30, 2006 was 6.2%.

(13) Contingencies

The District is subject to certain routine litigation, claims, and commitments incident to the ordinary course of business. The District's management believes that the probable resolution of such contingencies will not significantly impact the financial position or results of operations of the District.

Also, the District is self-insured for auto insurance. However, as no claims have been filed against the District in the previous two years, no insurance-related liability has been recorded in the basic financial statements.

CENTRAL UTAH WATER CONSERVANCY DISTRICT
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual
General Fund
Year ended June 30, 2006

	Budgeted amounts		Actual amounts	Variance with final budget – positive (negative)
	Original	Final		
Revenues:				
Property taxes	\$ 31,428,756	31,428,756	33,481,970	2,053,214
Water sales	11,162,605	11,162,605	11,466,031	303,426
Interest	176,250	176,250	627,856	451,606
Other	77,400	77,400	214,839	137,439
Total revenues	<u>42,845,011</u>	<u>42,845,011</u>	<u>45,790,696</u>	<u>2,945,685</u>
Expenditures:				
Administrative and general	5,827,153	5,756,293	3,631,382	2,124,911
District projects	1,442,236	1,513,096	1,340,044	173,052
Capital outlay	451,926	451,926	412,518	39,408
Water treatment plants and other projects	1,650,444	1,650,444	1,556,345	94,099
Central Utah Project operation and maintenance	2,104,955	2,104,955	2,011,498	93,457
Total expenditures	<u>11,476,714</u>	<u>11,476,714</u>	<u>8,951,787</u>	<u>2,524,927</u>
Excess of revenues over expenditures	<u>31,368,297</u>	<u>31,368,297</u>	<u>36,838,909</u>	<u>5,470,612</u>
Other financing uses:				
Transfers out	<u>(32,114,297)</u>	<u>(32,114,297)</u>	<u>(33,622,847)</u>	<u>(1,508,550)</u>
Net changes in fund balance	<u>(746,000)</u>	<u>(746,000)</u>	<u>3,216,062</u>	<u>3,962,062</u>
Fund balance – beginning	<u>5,415,704</u>	<u>5,415,704</u>	<u>5,415,704</u>	<u>—</u>
Fund balance – ending	<u>\$ 4,669,704</u>	<u>4,669,704</u>	<u>8,631,766</u>	<u>3,962,062</u>

Unaudited – see accompanying independent auditors' report and note to required supplementary information.

CENTRAL UTAH WATER CONSERVANCY DISTRICT
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual
CUPCA Fund
Year ended June 30, 2006

	Budgeted amounts		Actual amounts	Variance with final budget – positive (negative)
	Original	Final		
Revenues:				
Interest	\$ 820,710	820,710	1,205,705	384,995
Federal funding	34,193,100	34,193,100	30,958,000	(3,235,100)
Other	—	—	—	—
Total revenues	35,013,810	35,013,810	32,163,705	(2,850,105)
Expenditures:				
CUPCA activities	42,730,000	42,730,000	30,317,470	12,412,530
Excess (deficiency) of revenues over expenditures	(7,716,190)	(7,716,190)	1,846,235	9,562,425
Other financing sources:				
Transfers in	—	—	—	—
Net changes in fund balance	(7,716,190)	(7,716,190)	1,846,235	9,562,425
Fund balance – beginning	28,289,022	28,289,022	28,289,022	—
Fund balance – ending	<u>\$ 20,572,832</u>	<u>20,572,832</u>	<u>30,135,257</u>	<u>9,562,425</u>

Unaudited – see accompanying independent auditors' report and note to required supplementary information.

CENTRAL UTAH WATER CONSERVANCY DISTRICT

Note to Required Supplementary Information

June 30, 2006

Budget Operation

The District operates within the budget requirements for special districts as specified by state law. The financial reports reflect the following budgetary standards:

- For the fiscal year beginning July 1, the District controller prepares departmental budgets, which are reviewed by staff and then the Board's standing committees. Following this review, a tentative budget is prepared, which is reviewed by the finance committee, and finally by the Board, generally by the Board meeting held in May of the preceding year.
- By state laws, the Board legally adopts the final budget after a public hearing has been held.
- Once adopted, the budget can be amended by subsequent Board action. Reductions in or reallocations of appropriations can be approved by the Board, but increased appropriations by fund require a public hearing prior to amending the budget.
- Interim adjustments in estimated revenue and appropriations during the year ended June 30, 2006 have been included in the final budget approved by the Board, as presented in the basic financial statements.
- The level for which expenditures may not legally exceed appropriations is the total budget of a given fund.
- As required by Utah state law, budgets for the General Fund and the Debt Service Fund are prepared and adopted on a GAAP basis of accounting.
- At the end of a year, unencumbered appropriations lapse.
- All funds at the District have legally adopted budgets.